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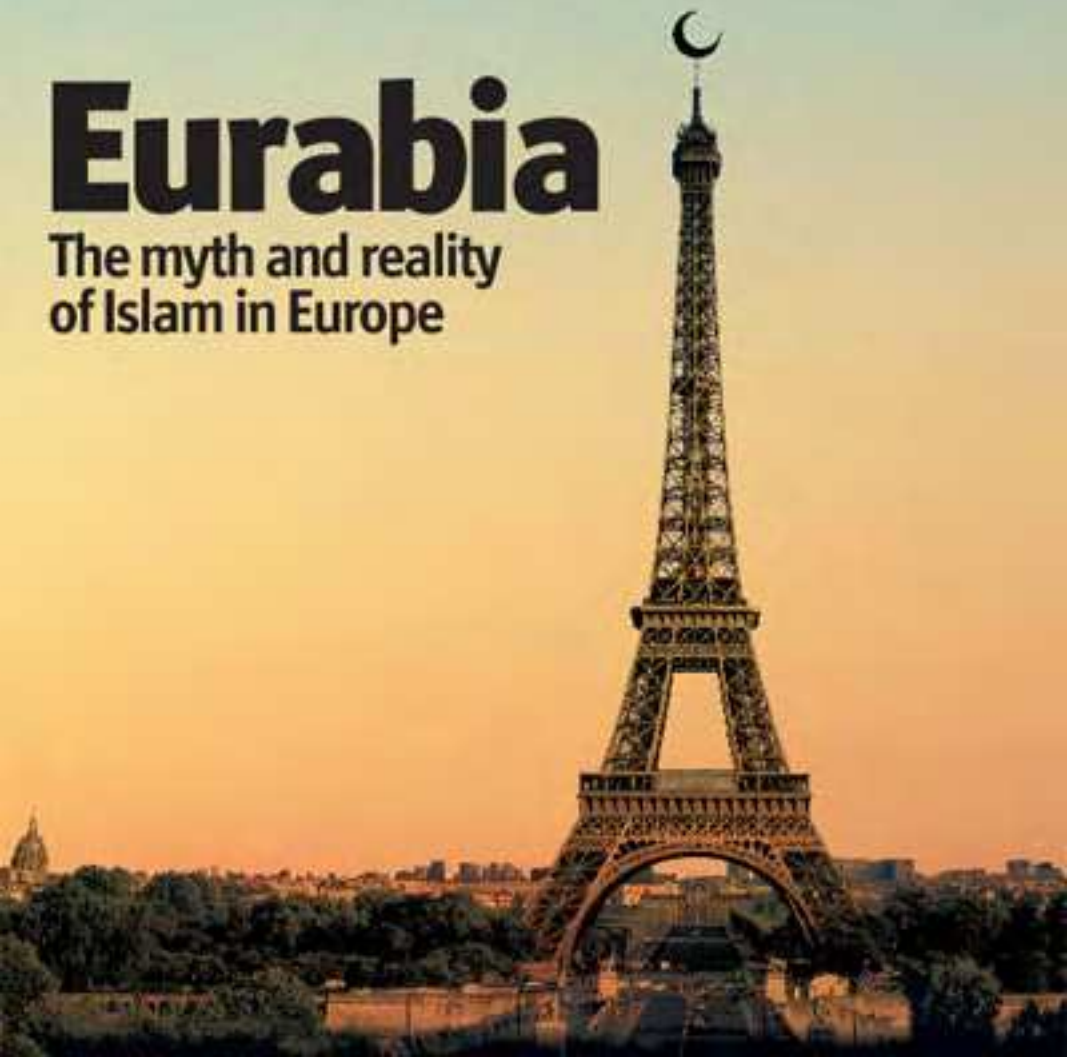

Eurabia

The myth and reality of Islam in Europe

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Print Edition June 24th 2006

On the cover
Contrary to fears on both sides of the Atlantic, integrating Europe's Muslims can be done: leader

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Politics this week

Jun 22nd 2006
From The Economist print edition

George Bush attended a **summit** with European Union leaders in Vienna, where he won strong backing for his reproach of Iran and North Korea over their respective nuclear programmes. Mr Bush also listened to EU calls to close Guantánamo Bay, and agreed he would "like it to be over with" but gave no timeframe for either releasing or trying the camp's detainees. See article

AP

More than 74% of voters in **Catalonia** gave their approval to a plan that gives greater autonomy to the region. The Spanish government also supports the proposal, which gives the Catalans greater powers over law and taxation.

Three pro-Western parties in **Ukraine**, all supporters of the 2004 "orange revolution", said they had formed a coalition after months of haggling.

Turkmenistan threatened to cut gas supplies to Russia unless Gazprom, Russia's gas monopoly, paid more for its gas. Any potential disruption also threatens Ukraine, as most of the gas supplied to it by Gazprom comes from the Central Asian country.

Falling out

The president of **Timor-Leste** (former East Timor), Xanana Gusmão, said he would resign if the country's prime minister, Mari Alkatiri, did not do so. The feud between the two men, which has led to clashes within the army, has plunged the infant nation into chaos.

America, Japan, South Korea and many other countries strongly urged **North Korea** not to test a long-range missile, which it is thought to have been fuelling ready for launch. Though not illegal, such a test would have big diplomatic consequences. See article

Japan's prime minister, Junichiro Koizumi, said that Japan's contingent of 600 troops are to be withdrawn from southern Iraq, though no date has yet been given. The troops were performing non-combat humanitarian duties.

Nepal's Maoists and the democratic political parties agreed to form a joint interim government, which will run the country until a new constitution can be approved that strips the king of his powers. See article

Real power incentives

Robert Zoellick is resigning from his post as America's deputy secretary of state to join Goldman Sachs. A former trade representative, he is said to have been unhappy with his position as number two at the State Department and had been considering a move to Wall Street for several months.

Plans to overhaul **immigration law** this year receded when Republican leaders announced a series of "field hearings" in congressional districts later this year.

The **Episcopal church** chose Katharine Jefferts Schori as its presiding bishop; she becomes the first woman to hold the leadership post. The church also passed a compromise resolution calling for

“restraint” in appointing gay bishops after an earlier proposal to institute a temporary ban was rejected, which risked a schism with conservatives in the worldwide Anglican church.

Louisiana's governor ordered the National Guard back into **New Orleans** for the first time since the aftermath of Hurricane Katrina. The guard will patrol areas of the city that are relatively deserted, freeing the police there to concentrate on a rise in violence in more populated areas.

David Safavian, the former head of procurement policy in the White House, was found guilty of trying to obstruct an investigation into his dealings with Jack Abramoff, a disgraced lobbyist who has pleaded guilty to corruption charges. The trial is the first to stem from the Abramoff scandal; more are expected.

Wings clipped

Reuters

The embattled **Brazilian** airline Varig was forced to cancel a third of its 180 daily flights amidst mounting fears of a financial collapse. The move came the day after a bankruptcy judge agreed to sell the airline to a consortium of Varig workers and two foreign investors.

Juan Carlos Robinson, once a high-flying member of **Cuba's** government, was sentenced to 12 years' imprisonment for corruption, the Cuban Communist Party announced. Mr Robinson, one of the few Afro-Cuban political figures on the island, had earlier been acclaimed by the ruling Politburo as an example of Cuba's young black leadership.

The trial began in **Argentina** of a former police commissioner accused of murder, torture and illegal arrest during the “dirty war” under the country's 1976-83 military dictatorship. The trial marks the end of 20 years of impunity for hundreds of officials under amnesty laws, which were annulled by the Supreme Court last year.

Going Dutch

Charles Taylor, a former Liberian president accused of overseeing the killing of thousands of civilians, was flown from Sierra Leone to the Netherlands, where he is to be tried for war crimes at a UN-backed Special Court at The Hague. See article

Israel, which had been trying to join since the 1930s, and Palestine have been admitted as members of the **Red Cross**. The breakthrough was helped by a change of symbol from the traditional red cross to a more neutral red square.

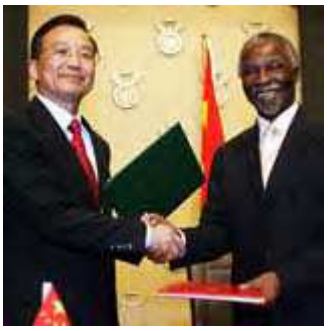
International donors approved, in principle, emergency aid payments for three months to the **Palestinians** to keep vital services going. Whether they approve more, in particular for Palestinian Authority salaries, may depend on whether Hamas, the Islamist group that runs the government, agrees to a “prisoners' document” that takes some steps towards recognising Israel.

The same day that one lot of **Iraqi** gunmen (probably Shia militiamen) murdered one of Saddam Hussein's defence lawyers, others (probably Sunni insurgents) abducted about a hundred factory workers on their way home in buses just north of Baghdad, raising fears of yet another sectarian massacre.

After capturing Mogadishu, Somalia's capital, Islamist militias continued to advance to the north and west. **Somalia's** interim president, Abdullahi Yusuf, claimed that they were being helped by thousands of foreign extremists. See article

AP

China's prime minister, Wen Jiabao, visited seven African countries, including South Africa and Angola, looking for deals to buy oil and commodities that would cement China's position as Africa's biggest trading partner.



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Business this week

Jun 22nd 2006
From The Economist print edition

The management of **EADS**, Airbus's parent company, met to consider the aeronautics and defence company's difficulties. An announcement of more delays to the A380 super-jumbo had sent its share price into a spin. Regulators in France started an investigation into the timing of a sale of shares in March by Noël Forgeard, EADS co-chief executive. As French politicians held an uproarious parliamentary debate on EADS's troubles, ILFC, the world's biggest aircraft-leasing company, said it was considering cancelling its order for the A380. See article

An investigation has been launched in America and Britain into an alleged cartel operated by several **airlines**. British Airways confirmed it was one of them and had placed its commercial director and head of communications on a leave of absence. See article

Down to the wire

More shareholders in **Arcelor** expressed unease about its planned merger with Russia's **Severstal**. Alexey Mordashov, Severstal's boss, dealt with some of the investors' misgivings by agreeing to take a reduced stake of 25% in the new company. Meanwhile, regulators suspended trading in Arcelor's shares until the Luxembourg-based steelmaker clarifies its position on **Mittal Steel's** takeover bid.

Sinopec, a Chinese oil company, agreed to buy an oil-production unit from **TNK-BP**, BP's Russian venture, in a deal that marks China's first step into Russia's oil market. However, Sinopec immediately sold a 51% stake in the unit to **Rosneft**, the Russian state oil company, further consolidating the government's hold on the country's energy industry.

Roman Abramovich, Russia's richest man (who lives in Britain), agreed to buy a 41% stake, estimated to be worth $3 billion, in Evraz, a big Russian steel group.

Engaged tone

Nokia and **Siemens** agreed to merge their telecoms-equipment businesses. The deal comes less than three months after Alcatel and Lucent said they were merging. Like that combination, Nokia Siemens Networks will become a leading supplier of fixed-line and mobile apparatus as well as competing to provide internet, video and telephone services. See article

A bidding war began for the core media and telecoms business of **PCCW**. The Hong Kong firm has received two offers, one from **Macquarie Bank**, a ubiquitous Australian institution, and one from **Texas Pacific Group**, a private-equity firm. However, China Netcom, a firm controlled by the Chinese government which owns a 20% stake in PCCW, gave warning that it did not want to see any change to PCCW's ownership.

The governor of **Japan's central bank**, Toshihiko Fukui, offered to take a pay cut to atone for making a hefty profit from his investment in a fund managed by Yoshiaki Murakami, who was arrested recently on insider-trading charges. Mr Fukui has not broken any of the Bank of Japan's rules, but has come under pressure to resign.

Deutsche Börse made another attempt to woo **Euronext**, a rival European financial-exchange company, away from its planned merger with NYSE Group. Euronext promptly rejected the offer. Meanwhile, it continued its takeover talks with Borsa Italiana, a smaller exchange. See article

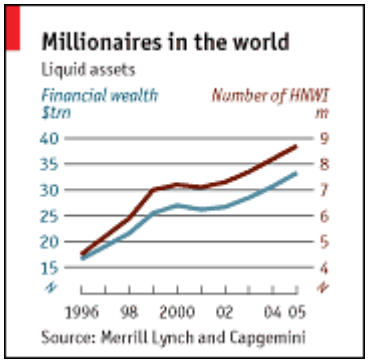
Allianz is to cut 7,500 jobs as it restructures its insurance and banking operations. About 5,000 jobs will go in the German firm's insurance business. The rest will go at Dresdner Bank, which has already shed thousands of jobs since Allianz bought it in 2001.

Deutsche Bank outbid Citibank and others to buy **Berliner Bank**, a retail bank. This is the first foray by Deutsche, Germany's biggest bank, into domestic consolidation. The seller, Bankgesellschaft Berlin, must itself be sold to a different buyer along with another subsidiary, Berliner Sparkasse, the local savings bank, by the end of 2007, under an agreement with the EU.

Morgan Stanley more than doubled its profit for the quarter ending May 31st compared with a year ago, to nearly $2 billion. This came after other big American investment banks had reported impressive earnings. Even so, Wall Street firms have seen their share prices dip as investors worry about the effects of a possible slowdown on bankers' fees from big mergers.

Filthy rich

There were 8.7m people with liquid financial assets of more than $1m in 2005 and whose total wealth reached $33.3 trillion, according to a report by Merrill Lynch and Capgemini. Two-thirds of these **"high net-worth individuals"** are in North America (2.9m) and Europe (2.8m); most of the rest (2.4m) live in the Asia-Pacific region. But the report warned against breaking out the Clos du Mesnil just yet: it expects the growth in the number of super-rich to continue slowing over the next few years.



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The West and Islam

Tales from Eurabia

Jun 22nd 2006
From The Economist print edition

Contrary to fears on both sides of the Atlantic, integrating Europe's Muslims can be done

Get article background

THIS week George Bush was in Vienna, doing his best to mend relations with his allies. The list of disputes between the United States and Europe remains long and familiar: Guantánamo, Iraq, Iran, the common agricultural policy. Less easy for Mr Bush to talk about, let alone fix, is the equally long list of different attitudes from which so many transatlantic tensions seem to spring—opposing prejudices on everything from capitalism and religiosity to Mr Bush's "war on terror".

These underlying emotions—what a British historian, Sir Lewis Namier, once called "the music to which [political] ideas are a mere libretto"—occasionally converge around a particular issue, such as Guantánamo Bay or Hurricane Katrina. This can be unhelpful: Katrina made America look like a failed state, Guantánamo is not a typical example of American justice. Now a similar caricature—this time about Europe—is forming in America (see article). It is known as "Eurabia", and it represents an ever-growing Muslim Europe-within-Europe—poor, unassimilated and hostile to the United States.

Two years ago, the White House's favourite Arabist scholar, Bernard Lewis, gave a warning that Europe would turn Muslim by the end of this century, becoming "part of the Arab West, the Maghreb". Now there is a plethora of books with titles like "While Europe Slept" and "Menace in Europe" (see article). Stagnant Europe, goes the standard argument, cannot offer immigrants jobs; appeasing Europe will not clamp down on Islamofascist extremism; secular Europe cannot deal with religiosity (in some cities, more people go to mosques each week than to churches). Europe needs to study America's melting pot, where Muslims fare better.

Londonistan calling

Such advice gets short shrift from European leaders, who often blame Muslim militancy on American foreign policy. But something similar to Eurabia scares many Europeans too. Terrorism is part of it, thanks to the Madrid and London bombings (as well as September 11th). But it goes wider than that: the past two years have seen riots in France's *banlieues,* the uproar about Danish cartoons of the Prophet

Muhammad, the murder of Theo van Gogh, a Dutch film-maker, and now the virtual exile (to America) of his muse, Ayaan Hirsi Ali.

Fears about “Londonistan” and so on have helped Europe's far right; on the other side of politics, a bizarre alliance has sprung up between the anti-war left and Islamic hardliners. But the respectable centre is split between France's strict integrationist approach (banning Muslim children from wearing head-scarves in state schools) and the more tolerant multiculturalism of Britain and the Netherlands. The debate about Turkey (and its 71m Muslims) joining the European Union is increasingly a Eurabian one. Meanwhile, at the centre of all this fuss Europe's Muslims are themselves riven by inter-generational arguments on everything from whether there is a European version of Islam to which cricket team to support.

Is Eurabia really something to worry about? The concept includes a string of myths and a couple of hard truths. Most of the myths have to do with the potency of Islam in Europe. The European Union is home to no more than 20m Muslims, or 4% of the union's inhabitants. That figure would soar closer to 17% if Turkey were to join the EU—but that, alas, is something that Europeans are far less keen on than Americans are. Even taking into account Christian and agnostic Europe's lousy breeding record, Muslims will account for no more than a tenth of west Europe's population by 2025. Besides, Europe's Muslims are not homogenous. Britain's mainly South Asian Muslims have far less in common with France's North African migrants or Germany's Turks than they do with other Britons.

Arguments about alienation are also more complicated than they first appear. Many European terrorists were either relatively well-off or apparently well-integrated. The Muslims who torched France's suburbs last year were the ones who seldom attend mosques. First-generation immigrants (with the strongest ties to the Muslim world) seem to be less radical than their European-educated sons and daughters. And the treatment of them is far from uniform either: for all the American charges of “appeasement”, the FBI is a downright softie compared with France's internal security services.

Give us jobs, education and a seat on the city council

Given these subtleties, perhaps the most dangerous myth is the idea that there is one sure-fire answer when it comes to assimilating Europe's Muslims. In some cases, integrationism goes too far (France's head-scarf ban was surely harsh); but multiculturalism can too (Britain is now reining in its Muslim schools). America's church-state divide and its tolerance of religious fervour are attractive, but its fabled melting pot is not a definitive guide either: many American Muslims are black, and many Arab-Americans are Christian. In some ways, a better comparison (in terms of numbers and closeness of homeland) is with Latinos—and nobody in Europe is (yet) talking about building a wall to keep Muslims out.

Yet amid all this hyperbole, two hard realities stand out. The first is the importance of jobs. In America, it is easy for a newcomer to get work and hard to claim welfare; in Europe the opposite is true. Deregulating labour markets is a less emotive subject than head-scarves or cartoons, but it matters far more.

Second, the future of Europe's Muslims, no less than that of America's Latinos, lies with the young. For every depressing statistic about integration—France's prisons hold nine times more young men with North African fathers than ones with French fathers—there are several reassuring ones: a quarter of young Muslim Frenchwomen are married to non-Muslim men; Muslims are flocking to British universities and even popping up in white bastions like the Tory party. In 50 years' time, Americans may be praising this generation of European Muslims for leading the enlightenment that Islam needed.

Europe's Islamic experience will be different from America's: geography and history have seen to that already. Integration will be hard work for all concerned. But for the moment at least, the prospect of Eurabia looks like scaremongering.

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Philanthropy

Give and make

Jun 22nd 2006
From The Economist print edition

Admirably, Bill Gates seems as serious about giving his money away as he was about making it

Reuters

NOT content with having devoted his career to amassing the biggest fortune in history, Bill Gates has said that he wants to devote the rest of his life to giving it away. Microsoft's chief software architect is not alone. Sandy Weill, recently retired from Citigroup, has committed himself to a deal he "made with God" over his modest $1.4 billion stash. That the moneyed are munificent is welcome, but that the best brains in business take the giving seriously matters, too. Philanthropy, done well, is a serious undertaking. Too often, the money is frittered away.

The giving is partly a result of all the receiving that has been going on. In an economy that tends to heap rewards on the best, the ranks of the very wealthy have recently been filling as fast as their pockets. A survey published this week by Capgemini, a consultancy, and Merrill Lynch, an investment bank, identified 85,000 people with more than $30m of assets last year, over 10% more than in 2004. The total worth of the world's richest people—the 8.7m with "liquid" financial assets of more than $1m—climbed by 8.5%, to $33 trillion. Most of this wealth has come from success in business.

The urge to give can have many guises. Sometimes charity reflects a sense of mortality (as Joan Weill kindly reminded her husband: "shrouds don't have pockets"); sometimes, a vain hope of immortality, secured by your name on that university chair or hospital wing. Sometimes charity is rooted in a wish to deprive the taxman and decide for yourself how your money should be spent: why break the habit of a lifetime? Sometimes it stems from the fear that an inherited fortune would tempt the children into extravagance and luxury—a grievous sin, considering the blood and tears it took to make.

No matter what the inspiration, philanthropy is good for doing all sorts of things governments fail at. Free of the vicissitudes of votes and public opinion, philanthropists can take on causes that are unpopular or neglected. They can innovate by promoting remedies that are otherwise unfeasible or remote. Sadly, however, the single-mindedness applied to the accumulation is rarely applied in the distribution.

In an article in the *Harvard Business Review* in 1999, Michael Porter and Mark Kramer, two academics, complained that charitable foundations spent too much on administration and did too little to measure how well their money was used. Their criticism still holds: Mr Porter condemns philanthropy as "decades behind business" in the way it uses its money. Others accuse charities of being elitist, secretive and arrogant.

Don't die disgraced

So applaud Mr Gates's decision to make giving away money his day job and to work at Microsoft part-time (see article). With him around even more, the Gates Foundation, which already does a fine job, will do even better. He is also setting an example to those, such as his friend, Warren Buffett, history's richest Nebraskan, who look likely to leave the task to someone else. Not every donor needs to become a full-time philanthropist—a growing industry of intermediaries can help sort deserving schemes from the rest. What matters is that the giver should do more than simply hand over the money.

Andrew Carnegie, steel tycoon and philanthropist, touched on something noble when he said more than a century ago that the rich are “entrusted for a season with a part of the increased wealth of the community, but administering it for the community far better than it did, or would have done, of itself.” Capitalism has demonstrated that it is the best system for creating great fortunes. More capitalists should show that it is the best for getting rid of them, too.

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Expatriate workers and taxes

The tithes that bind

Jun 22nd 2006
From The Economist print edition

America should scrap its distorted system of taxing those who work abroad

GLOBALISATION can sound horribly impersonal when wrapped up in talk of trade flows, foreign direct investment and the emotionless calculation of financial markets. In truth, it is a human phenomenon. It is people who buy, sell and make the goods and services that flit across the world's borders. And people do a lot of flitting themselves, many of them sent abroad by their employers to find new customers or to keep distant assembly lines running.

Despite past predictions to the contrary, companies are sending more, not fewer, people to work abroad (see article). Those on foreign assignment these days are increasingly likely to be Brazilians, Chinese or Indians, adding a new element to the traditional mix of Americans, Europeans and Japanese. Whatever their origins though, ambitious employees usually find that a spell abroad can do wonders both for them and for their companies. People should be able to work where they are needed most, with as little extra cost or burden to them and their employers as possible. On this score, however, there is still too much friction in the global system.

America's tax system is a prime example. Unlike every other big country in the world (and plenty of small ones), America runs an “extraterritorial” tax system. In other words, Americans pay American tax on their global income, wherever they live or work, as well as local tax. By contrast, British citizens pay British tax when they are resident in Britain, but need pay only local tax when working abroad. Treaties and numerous complicated credits are meant to ease Americans' pain, but the extra cost of sending Americans abroad means that fewer of them will accept, or be offered, the chance to go.

A bad system just made worse

Rather than lightening the extra tax load it has imposed on American expatriates—or their employers, who often pick up the bill—Congress has just made it heavier still. In a misguided attempt to find more revenue, lawmakers slipped last-minute changes into a broader tax bill that have resulted in rules that will, on balance, cost Americans abroad more. Worse, the changes have been backdated to the start of this year.

Under the new tax law, a married American expatriate with children who pays income tax at a marginal rate of 33% and has company-subsidised housing could see his gross tax burden increase by $40,000,

estimates Michael Abdalian, a partner at Ernst & Young. The situation will be especially painful for Americans working in low-tax countries where housing is pricey, such as Hong Kong and Singapore.

Belatedly, American companies and chambers of commerce abroad have cranked up their lobbying efforts to get the tax changes reversed, or at least modified by the Treasury. But it is probably too late to make a difference for this tax year, and tinkering at the edges misses the bigger point.

In a country that prides itself on the breadth and depth of its workforce, America should recognise that encouraging individuals to gain international experience is a boon to the whole economy. Putting American workers at a cost disadvantage is unwise as well as unfair. If Congress is serious about making American companies more competitive and some American individuals a little more worldly, it should scrap the whole unfair and distorting tax system for expatriates. As long as it does not, lots of non-Americans are ready to take their places.

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Afghanistan

The illusion of Empire Lite

Jun 22nd 2006
From The Economist print edition

Without security, nation-building doesn't work

THIS newspaper has long tried to see post-Taliban Afghanistan as a glass half-full. Since the American-led invasion of 2001, economic and political revival across much of the north of the country has been impressive. The economy grew by 14% last year. Four and a half million refugees have returned home after two decades of war. Afghans have voted in a president, a parliament and a new constitution. Girls can now go to school, and women have been elected to national office. Mobile phones are selling in astonishing numbers. There are even a few tall office buildings sprouting in Kabul these days, and one enterprising British businessman is setting up a venture-capital fund to invest in anything from gem-mining to the export of saffron.

But half of the glass remains empty. The south of Afghanistan has always been problematic, but is getting steadily worse. Its long, wild border with Pakistan offers the remnants of al-Qaeda and the Taliban a sanctuary. The south is also where opium production has expanded fastest, ensnaring peasants in warlordism and corruption. In the south, moreover, the American-led coalition forces have devoted their energies to hunting al-Qaeda, neglecting the more prosaic but essential job of making life safer for ordinary people. After five years like this, the price of neglect is now becoming visible.

The Taliban forces have regrouped, and have several thousand men under arms. In the past month, around 1,000 people have died in fighting across the southern provinces. The opium harvest, which was suppressed by the Taliban, has rebounded to record levels. The writ of the central government never ran far in the south, but now it counts for even less. Police chiefs and anyone else loyal to the central government have become prime targets. Meanwhile, the central government's reliance on local thugs and warlords throughout the region is breeding deep cynicism. President Hamid Karzai argues that he has little choice about this. But a parallel with the chaotic warlord-dominated years of the mid-1990s is inescapable. Those years ended with the rise of the Taliban, ruthless religious warriors who were hardly loved but at least were not corrupt and restored order.

The danger is that the deepening instability of the south, not helped by reports of heavy-handedness by the coalition in provinces such as Kandahar, will spread north, imperilling the genuine progress that has been made there. One sign of this was an unusual outpouring of anti-Americanism in Kabul, the capital city, last month after jumpy American soldiers are said to have fired into a crowd protesting at a lethal collision between military and civilian vehicles. This week American soldiers accidentally shot dead three Afghan policemen in the eastern province of Kunar.

Ain't no way to build a nation

In July NATO takes over the task of providing security in Afghanistan's four southern provinces from the mainly-American coalition forces. This offers an opportunity, but also a danger. NATO will have more troops in the south than the coalition had, and will concentrate on the protection of civilians and assisting reconstruction, though they will also be taking the fight to the Taliban. But because their remit is so widely drawn, the troops will be stretched thin. The Taliban will try to inflict casualties that will sap the alliance's political will.

If this NATO venture is to succeed, it needs more troops than the 6,000 it is getting, as well as help from outside NATO, ideally from Muslim countries. The soldiers will need tougher rules of engagement and—

this ought to be simple—more helicopters so they can get around more quickly and safely. As for Mr Karzai, he needs to sack a long list of well-known corrupt officials, some at the highest levels. Meanwhile, economic reconstruction in the south must be a priority.

After the invasion of 2001, too little attention was given to assuring basic security across the country, rather than in a few privileged cities. This was the consequence of a naive idea—which Michael Ignatieff, a Canadian critic of the policy, dubbed “Empire Lite”—that a limited American intervention could conjure into being a sympathetic government with widespread popularity and legitimacy. The supposed success of this model in Afghanistan was one reason why something similar was tried two years later in Iraq, with too few troops and consequences that are now miserably apparent. A robust effort could still prevent Afghanistan from unravelling, but one simple lesson has to be learnt. Without providing security, no other attempt at nation-building is worth a damn.

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About sponsorship

Prison reform

Crime and punishment

Jun 22nd 2006
From The Economist print edition

Britain needs fewer prisons, not more

Get article background

BRITAIN locks up more of its people than any other country in western Europe: 145 out of every 100,000 compared with France's 88 (though a fraction of America's 738). Sentences have got tougher, with longer stints in prison for pettier offences. Crime is, broadly, falling. Yet the British have less confidence in their government's ability to crack down on violence and crime than the French, Germans, Italians, Spanish or Americans, an Ipsos-MORI poll revealed last week.

For that, thank a run of bad news which has Britons reeling from headline to headline. If one were to believe the tabloids, paedophiles are rampaging through the schools and undeported foreign felons through the countryside. A string of crimes by convicts on early release culminated in a particularly sad and nasty sexual assault on a three-year-old girl, which came before the courts this month.

Carefully stoked by the press, popular passions are running high against everyone involved with the administration of justice. One home secretary (the minister in charge of prisons, the police and immigration) got the boot in May. His successor, John Reid, is busily putting the boot into everyone else, lambasting judges for being soft on crime and scaring the daylights out of his department. The Tories are demanding more prisons. Meanwhile, Tony Blair was due on June 23rd to urge a new balance between the rights of offenders and those of victims in favour of the latter.

Right question, wrong answer

Mr Blair is right to ask whether society's interests are best served by the status quo. The criminal justice system requires a degree of public trust that at the moment is lacking. This is a chance not for lock-'em-up posturing, but for a dispassionate look at how to make the administration of justice more effective. Start with one simple fact behind most of the headlines: Britain's prisons are bursting at the seams.

At current rates of sentencing, the inspector of prisons warns, jails will be full by September. This matters: the shunting of prisoners from pillar to post by harried staff is undermining efforts to return offenders to society in a state fit to stay there (see article). They lose touch with their families; they leave courses and drug-detox programmes; wardens they knew lose track of them. Two out of three re-

offend within two years of release. If politicians and judges, egged on by the press, insist on locking people up for longer, it will get worse.

How to fix things? Building more prisons is the obvious answer. Labour has already added thousands of new places, and both main parties talk of adding more. But Britain's jails always fill up, no matter how many there are. And new cells cost about £100,000 ($184,000) apiece. A better answer than banging more people up inside is to strengthen facilities to deal with them outside.

What prisons are for

Jailing offenders is supposed to do four things. It satisfies society's legitimate desire to smite evildoers (though advocates of restorative justice may favour community work or fines). It deters potential offenders (though many crimes are committed on impulse, or when drunk or drugged). It protects the public by taking dangerous offenders out of circulation. And it provides an opportunity to change the way offenders will think and act on their release.

These last two—incarceration and rehabilitation—are often cast as competitors in the tussle for scarce resources. In fact they should be seen as complementary. Society is protected in the short run when offenders are locked up, and in the long run when they are reformed. Violent and dangerous criminals belong behind bars. But many others end up in prison for want of anywhere else to go. What about them?

Many mentally ill criminals would be more easily reclaimed in facilities other than catch-all prisons, though prison drug programmes are in fact quite successful. So would many women prisoners, who tend to show violence only to themselves and elsewhere thrive in smaller detention centres close to home. Halfway houses are a plausible place for non-violent offenders of both sexes on short sentences or nearing the end of their time. Those in touch with their families are less likely to re-offend, and so are those who have jobs to go to when they leave. Non-custodial community sentences have yet to prove their worth; the rate of recidivism seems disappointingly close to that of people who serve prison terms. But those figures may change as the approach becomes more common and new cohorts of offenders affect the statistics.

These suggestions are not new. The Home Office itself has espoused many of them, only to drag feet in their implementation or be swamped by sheer numbers. Of course there are risks in diverting offenders to less secure facilities; some will run off and make headlines. But the risk of keeping increasing numbers under lock and key, to emerge later skilled only in tougher sorts of crime, is greater. It was a Tory home secretary who said, a decade and a half ago, that “prison is an expensive way to make bad people worse”. Not much has changed.

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On Puerto Rico, Ecuador, Britain's doctors, the World Cup

Jun 22nd 2006
From The Economist print edition

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Island story

SIR – Your article on Puerto Rico presented a stereotypical view and failed to portray the many successes on our island ("Trouble on Welfare Island", May 27th). In fact, Puerto Rico's welfare rolls actually fell by 52% between 1996 and 2003. Our people, as well as government, business leaders and academics, work hard and do not rely on others for handouts. Although government has long been the largest employer, this administration is replacing public-sector jobs with private-sector opportunities. For instance, in 2005 the government slashed 5,000 jobs, but the private sector created 43,000 and unemployment is at an all-time low.

And employment continues to grow in our pharmaceuticals sector, which employs 8.3% of all pharmaceutical workers in the United States. Each year, 23,000 bilingual students graduate from our universities, 9,000 of whom have degrees in science, engineering and technology. You reflected many of the hurdles we have crossed in the past, but did not give an accurate assessment of Puerto Rico's present and future.

Aníbal Acevedo Vilá
Governor
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Ecuador and Occidental

SIR – It is necessary to point out the facts about the Ecuadorean government's action in relation to Occidental Petroleum ("Grabbing Occidental", May 20th). The termination of the contract between the government and Occidental, an American company, is entirely a juridical issue. Occidental breached the contract, unlawfully selling 40% of its rights and obligations to a third party without the authorisation of the government, as provided by the law and the contractual agreement. This is fact, not just "a claim the company rejects". As in any other country, foreign companies must respect their obligations under national law and are obliged to fulfil commitments that have been agreed upon. Nothing else but Ecuador's Hydrocarbons Law and the provisions of the contract have been taken into account. Therefore, this is definitely not an instance of "expropriation" nor a nationalisation of Occidental. Moreover, no international treaty, bilateral or multilateral, has been violated by terminating Occidental's contract.

Teodoro Maldonado
Ambassador for Ecuador
London

Doctors and the NHS

SIR – Far from signalling that "no amount of money can fix the NHS", my recent speech gave specific examples of waste in National Health Service funding and how the money could be better used to benefit patients (Bagehot, June 10th). Furthermore, it is simply not true to say that independent treatment centres (ISTCs) have had a "galvanising effect" in driving down waiting lists. Even in cataract surgery, where they are most widely used, ISTCs carry out only 3% of the operations. The waiting-time reductions are due to a planned increase in NHS cataract facilities agreed by the Royal College of

Ophthalmologists and the then health secretary, Alan Milburn.

The fact is that consultants working innovatively and flexibly for the NHS have brought down waiting lists, and the consultant contract has been instrumental in developing methods that have made it easier to meet targets. For years the NHS and various governments exploited the goodwill of senior doctors, relying on them to work far in excess of their contracted hours but for no extra money. We are now asking to be paid for the work we do and this does not seem unreasonable.

Dr Paul Miller
Chairman
British Medical Association
Consultants' Committee
London

"Here we go, here we go..."

SIR – Another World Cup, another flurry of articles about why Americans who are over 12 years old just don't care (Lexington, June 10th). Some clarifications are in order. Suburban kids who play soccer do so not out of parental Europhilia, but because the unathletic ones look less ridiculous running around a soccer pitch than swinging haplessly at baseballs or desperately flinging basketballs. For most of us soccer is just an odd affectation of foreigners, like minuscule cars, pink shirts on men and the metric system. Maybe "The Simpsons" best summed up our lack of interest: "It's all here. Fast-kicking, low-scoring, and ties? You bet!"

James Walsh
Washington, DC

SIR – Soccer is like a football version of the UN General Assembly: scoring rarely occurs, but with lots of poncing about in and out of the stadium.

Al Sweetman
Athens

SIR –*The Economist* should surely understand American indifference to soccer. A $12 trillion economy requires highly skilled people in specialised roles, several layers of management, a complex communication system and gobs of capital. In other words, American football.

Jeffrey Fulmer
Lancaster, Pennsylvania

SIR – Until the rules of soccer change to allow time-outs, which can cause the final five minutes of an NFL game to last half an hour, advertisers will not sponsor matches and they will not be broadcast.

Kenneth Enright
Greenwich, Connecticut

SIR – It is ironic that "socialistic" soccer should be contrasted with "capitalistic" American football. The National Football League retains revenue-sharing and caps on salaries to keep smaller teams competitive and begs for taxpayer funding to build new stadiums. European soccer clubs spend whatever they wish on salaries, build stadiums from private funds and have leagues that use a meritocratic promotion and relegation scheme. Which of these two sounds socialistic and which sounds capitalistic?

Cliff Andrus
Atlanta

SIR – Soccer is immensely popular among the young here, to the extent that you can count on the United States eventually becoming a contender for the World Cup. Think you hate us now? Just wait until our guys actually win the thing. Seems that our women already have.

G.E. Anderson
Los Angeles

SIR – I fear you are carried away with World Cup fever ("Let the games begin", June 10th). The Olympics are far better by any democratic standard; every country can realistically hope to attend the event and few nations walk away from the dazzling array of sports without a medal. More importantly, while the World Cup boasts famous and well-paid footballers, the bulk of Olympic athletes toil for years beyond the media spotlight at sports of even greater obscurity. If you can name the current curling gold medallist, or find a footballer working the till at your local supermarket, I may be converted to your perspective.

Matthew Mosca
Vancouver

SIR – A less testosterone-poisoned perspective to yours would consider that women have participated in the Olympics since 1900, while FIFA organises the World Cup so that the women's game doesn't get the same attention and publicity as the men's. In my view, Nadia Comaneci's achievements beat Pelé's any time.

Mihaela Calacean
Uppsala, Sweden

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Islam, America and Europe

Look out, Europe, they say

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Reuters

Why so many Muslims find it easier to be American than to feel European

Get article background

HAVING narrowly escaped with his life from the theocrats of his native Iran, Afshin Ellian likes the relaxed, cerebral atmosphere of Leiden, the Dutch town where he now teaches law. But this 40-year-old professor is disillusioned by a Europe which he says has become too soft-minded in its dealings with Islam. It is a sign of the times, he thinks, that the country where he settled 17 years ago is about to say goodbye to Ayaan Hirsi Ali, a Somali-born Dutch politician who has sharply criticised the Muslim tradition in which she was raised. Having got into trouble because she once fibbed to the Dutch immigration authorities, Miss Hirsi Ali is moving to America.

Some of Mr Ellian's criticisms of Europe are philosophical: it is too cynical and mercantilist a place to wage a war of ideas in defence of the Enlightenment. Some are personal: “Five years ago, my Afghan sister-in-law emigrated to the United States, where she now works, pays taxes and takes part in public life. If she had turned up in Europe, she would still be undergoing treatment from social workers for her trauma—and she still wouldn't have got a job or won acceptance as a citizen.”

Among Europeans of Middle Eastern heritage, Mr Ellian's views are rather unusual. But they would draw applause from many Europe-watchers in the United States, in whose eyes the mishandling of Islam has become the latest and gravest of Europe's self-inflicted wounds.

During the cold war, America used to berate its European friends for underestimating the Soviet threat and failing to spend enough money on their own defence. A little later, Europe was rightly scolded for not doing enough to stop the bloodshed in its own Balkan backyard. These days, the handling of Islam is near the top of the long list of subjects on which the American consensus differs sharply, and increasingly, from the European one.

A different view

Two recent events have crystallised American views. Late last year, when Muslims in many of France's

slum-suburbs erupted in almost uncontrollable violence, this was seen as proof of Europe's failure either to give the newcomers a decent economic life or to confront extremism successfully. Then, earlier this year, Danish cartoons of the Prophet Muhammad caused worldwide riots. This was a sign both of official Europe's weakness in defence of free speech—but also, for some Americans, of a godless continent's failure to understand the depth of other people's faith.

In running their economies, observes Charles Kupchan, one of Washington's veteran Europe-watchers, the Europeans know what is needed but lack the firmness to do the right thing. When it comes to Islam, they just don't know what to do.

It does not cheer America that, in several parts of Europe, some Muslims have found a political voice in alliance with the anti-establishment left. Britain's “Stop the War” movement, which organised huge rallies against the war on Saddam Hussein's regime, is a curious partnership between supporters of the international Muslim Brotherhood and largely non-believing socialists. Tariq Ramadan, a Swiss-based scholar who has also taught at Oxford University, has won a large following with his mixture of loyalty to Islam's holy texts and opposition to global capitalism.

In some transatlantic squabbles, the American message has been delivered more in sorrow than in anger. We wish you Europeans would do the right thing (about labour markets, say, or farm subsidies) both for your own sake and for the sake of the global economy—but in the end it will be your loss if you don't. But when it comes to the handling of radical Islam, the argument is getting more rancorous. That is partly because Americans see a threat to their own security from a Europe whose citizens can travel easily to the United States. The September 2001 attacks, remember, were planned in Hamburg.

Europe has become a “field of *jihad*”, and it may be the part of the world where America faces the greatest threat from Islamic extremism. So says Daniel Benjamin, a former White House adviser who is now a terrorism-watcher at the Centre for Strategic and International Studies, a think-tank. Mr Benjamin makes a demographic projection of a kind more often heard on American lips than European ones. The Muslim population of the European Union's existing 25 members may on present trends double from about 15m now to 30m by 2025. And that leaves out EU-applicant Turkey, with an almost entirely Muslim population of around 70m.

To be sure, it is by no means clear just how many Muslims there are in Europe. In France, whose secular authorities never ask a religious question on a census form, the number of people of Muslim heritage is generally given as 5m, or 8% of the population. But that is only an educated guess. Some studies, extrapolating from the difference in birth rates, say the figure might rise to 20% of the population by 2020.

Well, maybe. In a forthcoming book, two scholars at America's Brookings Institution, Jonathan Laurence and Justin Vaisse, say this estimate is much too high. It underestimates the relative fecundity of non-Muslim Frenchwomen (compared with, say, their Italian sisters) and the fact that Muslims seem to have fewer babies the longer they have been in France.

In fact, there is something weirdly paradoxical about the Muslim scene in every major European country. The secular French state has given mosques and clerics a privileged role as representatives of Islam; yet France's Muslims are as lax in attending their mosques as Catholics are about going to church (though Muslims are better at private prayer and observing religious fasts).

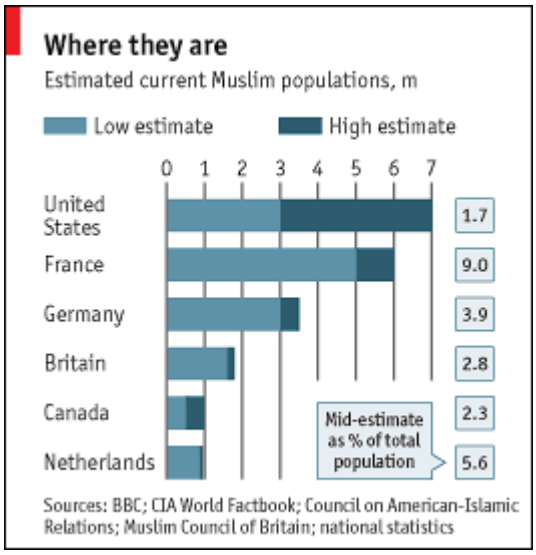
In Germany, the great majority of the country's Muslims have their origin in Turkey. German Turks tell pollsters that they are happy with their host country, and with the principle of separation of church and state; but they also seem to be growing more fervent in their attachment to Islam. In one survey of German Turks, 83% said they were “rather” or “strictly” religious, and the number of those who think women should cover their head is rising.

Britain's authorities, both national and local, have devoted much attention to making the country's nearly 2m Muslims feel more at home. But Muslims remain at the bottom of the economic pile. The main reason is that, compared with British Hindus and Sikhs, or even French Muslim women, very few of Britain's Muslim women—mostly from Pakistan or Bangladesh—go out to work. Yet some Muslim sub-groups, such as the Ismailis who came from southern Asia via East Africa, have soared ahead. Islam itself is no barrier to economic advancement.

Amid all the confusion, there is one clear trend among European

Muslims. Islam is increasingly important as a symbol of identity. About a third of French schoolchildren of Muslim origin see their faith rather than a passport or skin colour as the main thing that defines them. Young British Muslims are inclined to see Islam (rather than the United Kingdom, or the city where they live) as their true home.

It does not help that all Europeans, whatever their origin, nowadays find themselves "identity-shopping" as the European Union competes with the older nation-states for their loyalty. No wonder many young European Muslims find that the *umma*—worldwide Islam—tugs hardest at their heart-strings.



The argument gets blunter

In the short run, at least, there seems little chance of Europeans and Americans finding a common language over Islam. As many non-Muslim Europeans see things, it is American foreign policy—in Iraq, above all—that has radicalised their Muslim compatriots. If European Muslims are anti-Western, they say, it is largely because of the Bush administration's misdeeds.

In its gentler moments, the administration is sensitive to European touchiness. Americans must be "careful and modest" in telling other parts of the world how to solve questions of identity and religion, says Daniel Fried, the State Department's top man for European affairs.

But, in his careful, modest way, Mr Fried makes some firm points about Europe's difficulties in absorbing Muslim newcomers. Europeans, he thinks, are still too inclined to see these Muslims as "unwanted foreigners". In facing a challenge like Muslim immigration, "exclusionary nationalism will not help." At the same time, Mr Fried fears, some European governments are not very adept at distinguishing between peaceful piety and the more violent kind. He insists that the United States has a "deep and legitimate interest" in the battle of ideas between Islam's moderates and extremists in all parts of the world—and that it will do its best to support the moderate ones in Europe.

Yet, for Europe's angriest Muslims, their host countries' gravest sin lies precisely in their alignment with America—both as partners in the global capitalist system and as supporters, in varying degrees, of American foreign policy. So the suggestion that America may have something to teach Europe about how to make Muslims feel more comfortable (and therefore less extreme) looks at first sight rather strange.

It is, in fact, by no means absurd. Whatever the defects in Muslim eyes of American foreign policy, the United States has a substantial Muslim population which on the whole seems pretty comfortable there, and has produced some of the world's best Islamic thinkers. That spectacular Middle East-looking mosque at the top of this article is in fact in Dearborn, Michigan.

For the same reason as in France—the fact that the state does not like asking questions about religion—the United States has a hard time estimating the size of its Muslim population: the guesses range between 3m and 7m. But, whatever the precise number, America's Muslims neither see themselves, nor are seen by other Americans, as being radically at odds with American society. When Americans scold Europe for its "exclusionary nationalism", it is partly because they feel that their country has more successfully embraced a variety of religions, including Islam.

Some American Muslims would quibble with that claim: polls show a rising percentage of Americans with negative views about Islam, and Muslim organisations report a rising number of incidents of harassment or discrimination. But, broadly speaking, freedom to practise and preach Islam is protected by the American system.

If America is better at absorbing its Muslims, this may to some degree be a matter of luck. The majority of Muslim Americans are either upwardly mobile migrants from southern Asia or Iran, or black American converts who lack any personal links to Islam's heartland. Many European cities, on the other hand, contain an exceptionally volatile Muslim under-class which is poor, alienated and intertwined (by family

ties) with the hungriest and angriest parts of the Muslim world.

But it is not just luck. The difference between America and Europe in dealing with Islam reaches down to some basic questions of principle, such as the limits of free speech and free behaviour. America's political culture places huge importance on the right to religious difference, including the right to displays of faith which others might consider eccentric. In the words of Reza Aslan, a popular Iranian-American writer on Islam, “Americans are used to exuberant displays of religiosity.” So the daily prostrations of a devout Muslim are less shocking to an American than to a lukewarm European Christian. American society is open to religious arguments—and to new approaches to old theological questions—in a way that Europe is not.

In general, Americans are more optimistic—or less gloomy—about Islam than Europeans. A poll published this week by the Pew Research Centre says that Americans who see Muslim-Western relations as “generally bad” outnumber those who take the opposite view by 55% to 32%. Not exactly cheery. But in Germany the pessimists are ahead by 70% to 23%, in France by 66% to 33%, and in Britain by 61% to 28%.

Some things are off-limits even in America. In Britain, for example, members of the radical (but non-violent) Hizb ut-Tahrir movement have appeared on television to express their rejection of the principles of liberal democracy and secular justice. That is unlikely to happen in America. Nor would it be possible, in any American context, to argue for the superiority of *sharia*—Islamic law—over laws passed by elected law-makers.

But the right to say almost anything on most other subjects is deeply entrenched in America. This means that, whatever weapons the parties in America's religious arguments try to use, they do not usually include attempts to deny the other side's right to speak.

The result is that there is more space for hard religious argument. No law restrains that quite large body of American thought which is critical not just of extreme readings of Islam but of Islam itself—arguing that the warrior ethos of the faith's earlier centuries was one of its essential features, not just a regrettable excess. But the American system also guarantees the rights of those who argue for the opposite view: that Islam is basically a peaceful, universalist faith which restricts rather than enjoins the use of violence.

This does not mean that America has a monopoly of wisdom in distinguishing peaceful Muslim citizens from the other sort. During the 1990s, a Washington-based group called the American Muslim Council and its leader, Abdurahman Alamoudi, were hailed by the American government as valuable people to talk to. In 2004, Mr Alamoudi was given a 23-year jail term on terrorism-related charges.

But one merit of the American system is that, even when hard questions arise about the trade-off betweeen freedom of speech and security, there is a robust legal culture which enables people to fight back if their rights are infringed. Last year some American Muslims who had been detained in New York state on returning from a conference in Canada promptly filed a lawsuit against the federal authorities—and they were helped to do so by the American Civil Liberties Union.

The idea that freedom is the cornerstone of politics is one reason why people like Mr Ellian, that Iranian who fled to Leiden, look hopefully towards America. His argument goes as follows. Islam's sacred texts can be read either in a spirit of militant intolerance or in a spirit of altruism—and the latter can prevail only in conditions of hard, open-ended debate in which nobody holds back for fear of giving offence. America's free-speech culture may have a better chance of fostering such a debate than European political correctness.

It's starting to change

There is no shortage of robust debate among European Muslims, but it is more about politics—especially left-wing politics—than about theology. In Belgium, Muslims now have about a quarter of the seats in the regional government of Brussels. In the municipal politics of Britain and the Netherlands, some radical Muslims quite often find themselves doing political business with other anti-establishment groups on the secular left, to the dismay of older immigrants.

During a recent contest in east London, the candidate for the new Respect party—a young Muslim

lawyer—was chided by his co-religionists for sharing a platform with homosexuals. But Abdurahman Jafar held his ground: “We want equality for Muslims and we would seem insincere if we didn't stand together with other minorities who face discrimination.”

The rhetoric that emerges from this sort of politics in a variety of European countries is not always attractive to American ears, since one of the few common denominators between angry Muslims and secular leftists is hostility to America. But, given a choice between pious self-segregation and plunging into public affairs, many European Muslims are choosing the latter.

In places like Amsterdam, coalition-building between Muslims and others is producing some positive results. Ahmed Aboutaleb, a Moroccan-born city councillor in Amsterdam, is proud of the fact that he was handsomely re-elected this year—on a moderate centre-left ticket—by a combination of native Dutch votes as well as those of Muslim immigrants.

He says that the relatively benign inter-ethnic climate in Amsterdam reflects the town hall's efforts to make all races and religions feel part of a “united camp”. As a result, he claims, the risk of some new incident setting off a general upsurge of tit-for-tat violence between Christians and Muslims (as happened when the film-maker Theo van Gogh was murdered by a Muslim extremist in 2004) has been greatly reduced, at any rate in Amsterdam (though he admits the risk is still rather higher in other Dutch cities).

Of course, this does not mean that there is no longer any cause to feel concern about Europe's ability to absorb its assorted Muslim peoples. The latest study of the 900,000 Dutch Muslims, by Amsterdam University, suggests that the feelings of “indignation and humiliation” experienced by Muslims are worsening, not fading away. Such feelings are especially strong among second-generation Muslims, who believe they have a solid claim to a comfortable place in Dutch society but still reckon they are being rejected.

The good news is that not everybody who harbours these feelings is retreating into the margins of extremism and violence. A process of political assimilation is, hesitantly but visibly, taking place. This will change the politics of Europe. It may affect Europe's relations with the outside world. But, in the process, Muslims will also change—and perhaps settle into their new homelands as comfortably as most American Muslims have done.

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Democrats and the war

It matters whom you kiss

Jun 22nd 2006 | HARTFORD, CONNECTICUT
From The Economist print edition

The campaign to oust Joe Lieberman, a pro-war Democrat, sheds light on the party's inner turmoil

Getty Images

ON THE front of Ned Lamont's campaign DVD case is a picture of his opponent, Joe Lieberman, hugging George Bush (and the same point is made in a campaign button). In case you did not get the message, it is framed with a heart. On the back is another heart, framing a picture of Mr Lamont with a blonde. Asked if the lady is his wife, Mr Lamont says no, it is a campaign staffer he took a fancy to. Not a bad joke for a politician.

A few months ago, no one had heard of Mr Lamont. Now he is the darling of the anti-war left. The people Howard Dean once called "the Democratic wing of the Democratic Party" are flocking to his cause. Lefty bloggers from all around America are clicking to donate. The reason for Mr Lamont's sudden celebrity is that his opponent, though a Democrat, generally supports Mr Bush's policies in Iraq.

Mr Lieberman is one of the grandees of the Democratic Party: a senator for 18 years, he was Al Gore's running mate in 2000 and a contender for the presidential nomination in 2004. The party establishment supports him. But to anti-war activists, he is a traitor of the worst kind: a Democrat who shills for the warmonger-in-chief. So they are seeking to oust him in Connecticut's Democratic primary in August. With their troops so motivated and turnout in primaries typically only 20%, they think they have a chance.

Like Mr Dean, Mr Lamont did not so much start a campaign as stumble upon a network of angry people looking for someone to support. They communicate with like-minded souls online. They call themselves "netroots", ie, grassroots campaigners linked by the internet. There are a lot of them: their most popular meeting-place, a blog called the *Daily Kos*, attracts hundreds of writers and perhaps half a million readers a day.

They are the most disruptive force in Democratic politics today. Their aim is to transform the party by backing candidates who will "fight back" against Mr Bush. Mr Lamont is top of their list. "Lieberman is going to lose," said Markos Moulitsas Zúniga, the *Daily Kos*'s 34-year-old founder, to a rapturous audience at a Kossack convention in Las Vegas this month.

Mr Lamont is an amiable fellow. A banking heir and cable TV entrepreneur, he is worth more than $90m (he calls himself a “small businessman”). Despite his wealth, his policies are solidly progressive. He wants universal health insurance, more money for schools and to save Social Security by raising taxes on the rich. On bread-and-butter issues, he is to the left of Mr Lieberman, but the difference is much smaller than his eager team of campaign workers would have you believe.

The only real chasm between the two candidates' policies is over Iraq. Mr Lieberman thinks America was right to overthrow the “primitive, killing tyranny of Saddam”. On trips to Iraq, he sees progress towards “modern, self-governing, self-securing nationhood”. And he thinks that whatever people think about the initial decision to go to war, the commander-in-chief should have bipartisan support to see it through to a successful conclusion.

Mr Lamont thinks the war was wrong, rushed and botched. He says the $250m it costs each day would be better spent on education. Whereas Mr Bush says that American troops can stand down as the Iraqis stand up, Mr Lamont thinks the opposite: that the Iraqis “won't step up till we step back”. He wants American troops to withdraw as quickly as is practical. He also urges the president to reassure Iraqis that America has no designs on their oil and no plans for permanent military bases in Iraq.

These lines win hearty applause from the kind of Democrat who turns up to local party meetings. Mr Lamont may be an indifferent public speaker, but his message is much clearer than that offered by the party's top leaders. Senate Democrats are debating two proposals this week. One, sponsored by John Kerry, calls for a pullout by July 1st 2007. The other, sponsored by Carl Levin and Jack Reed, calls for “redeployment” to begin by the end of 2006, but sets no deadline for its completion.

Democratic activists may prefer Mr Lamont's position, but they also want a candidate who can win. A poll shows Mr Lieberman leading by 55% to 40% among likely primary voters. But that lead was nearly three times bigger only a month ago, so Mr Lieberman is worried. A prominent state Democrat, John Droney, suggested last week that he should drop out of the Democratic primary, since “every single weirdo in the left wing will be there”, and run as an independent. Polls suggest that in November Mr Lieberman would win easily, whatever his party label.

The reason, says Christopher Kukk, an associate professor of political science at Western Connecticut State University, is that independent voters outnumber both Republicans and Democrats in Connecticut. Mr Lieberman strikes both independents and Republicans as a man who thinks for himself and votes according to his conscience, says Mr Kukk. He argues that his stance on the war “plays really well” in Connecticut.

This underlines why Iraq is such a hard issue for the Democrats. Americans who are outraged by the war will vote for them. But if they court the anti-war vote too eagerly, they risk alienating the centre. Mr Moulitsas, whom Democratic bigwigs were falling over themselves to woo at the Las Vegas convention, once said of four American contractors who had been murdered in Iraq: “I feel nothing over the death of mercenaries...Screw them.” Doubtless, no Democratic politician would share such sentiments. But, in politics, it matters whom you hug.

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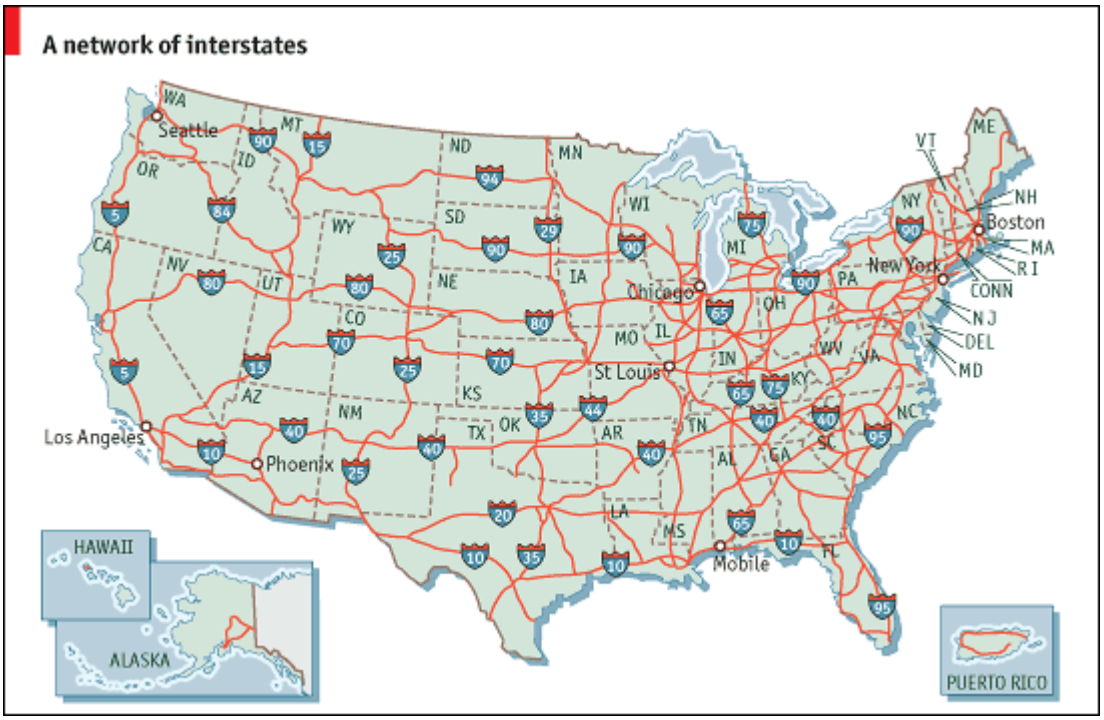
About sponsorship

Interstate highways

Roads to somewhere

Jun 22nd 2006 | CHICAGO AND ST LOUIS
From The Economist print edition

The highways that have changed America's social and economic face



"OH, WE have 12 vacancies: 12 cabins, 12 vacancies. They, uh, they moved away the highway." Thus Norman Bates explained to Marion Crane, in the 1960 film "Psycho", why the desolate Bates Motel had no other guests. Miss Crane had left the main highway after driving from Phoenix, Arizona to southern California, roughly along the east-west route that Interstate 10 now follows. She thus became one of the first victims, albeit fictional, of the multi-lane, limited-access highways that were beginning to reshape America. Those highways began expanding rapidly after President Dwight Eisenhower, 50 years ago this month, signed the Federal-Aid Highway Act of 1956 which committed the government to invest heavily in a national network of interstates.

The law offered to pay 90% of the costs for the new highways, with relevant state governments picking up the rest of the tab. Most of the new roads were at least four lanes wide, with no level crossings; these standards became mandatory in the 1960s. States were allowed to bring their existing toll roads into the system provided they were up to snuff.

Besides the obvious economic reasons, one of Eisenhower's goals was to improve national security: the network that he authorised was often referred to as the National System of Interstate and Defence Highways. The generals thought that better roads would make it easier to move military convoys around in case of attack, as well as to evacuate big cities in a hurry. The overpasses were made high enough so that ballistic missiles could be transported beneath them. Though the atom bombs and invaders never came, life in America would never again be the same.

The country now has 46,876 miles (75,440km) of interstate highways coursing the length and breadth of the country, including Alaska, Hawaii and Puerto Rico. Some of the interstates cut long, smooth and

straight paths that form a giant grid across the 48 states. The longest, I-90, is one of four east-west routes that span the whole continent; it stretches 3,000 miles and goes through 13 states.

As well as encouraging ever more Americans to hit the road, the interstates have remade the country's social and economic landscape. Several long roads were already criss-crossing America before the new system came into being. The Lincoln Highway ran east to west, and segments of it formed the Main Street of many towns along the way. Route 66 ran south from Chicago to St Louis, before bending through the south-west into Los Angeles. These routes had their drawbacks. Travel was slow, because of weather, bottlenecks and all those small-town intersections. But they also let Americans see more of their country and compatriots along the way.

The interstates replaced social interaction and serendipity with speed and efficiency, and some have lamented the change ever since. By 1962 John Steinbeck was writing about the disappearance of antique stores, factory outlets and “roadside stands selling squash juice”. He complained that the new roads would make it “possible to drive from New York to California without seeing a single thing.”

The interstates paved the way for fast food chains such as McDonald's, Burger King and Kentucky Fried Chicken, which set up shop near the access ramps. Besides changing the way that motorists eat, the new highways also transformed the ways in which companies moved their goods. One reason that Wal-Mart became a cost-cutting behemoth was because it exploited the logistical advantages of the new system faster than its competitors did.

Manufacturers now treat interstate highways as if they were part of the assembly line, clustering factories near the access ramps so that parts and raw materials can arrive at the right moment. Of the 15 new car and truck plants that opened in America between 1980 and 1991, all but two were built along Interstates 65 and 75, which form a narrow corridor running from Indiana and Michigan down through the Ohio valley into Kentucky and Tennessee. Since then, carmakers have built more plants farther south along I-65, which ends in Mobile, Alabama, and have also branched out along intersecting east-west routes such as I-40.

Carmakers and retailers are not the only ones to relocate because of the interstates. People have too. Besides linking distant places to each other, the system has encircled many urban areas with “beltways”, which let motorists move between surrounding suburbs without having to bother with the cities. Once commuters began whizzing (on a good day) around those beltways, centrifugal force did the rest, propelling office space, staff and tax revenues away from the centre.

The big question now is whether Americans are willing to keep spending more than $80 billion a year of their tax money to maintain and upgrade the system. Clifford Winston, at the Brookings Institution, has tried to measure the benefits reaped from improved logistics. Although this is clearly an imprecise exercise, he reckons that government-financed highway investments have run into steeply diminishing returns since the 1980s.

Such calculations do not include the huge benefits that Americans gain by being able to get around easily in their cars. But those drivers are also taxpayers and voters. And growing numbers of them are turned off by the corruption that goes with pork-barrel spending. Highway bills are a notorious source of rancid pork.

Some state governments—which face tighter fiscal constraints than the federal one—are toying with ideas for letting the private sector take over stretches of highway. Now that the interstate network is built, the challenge is to maintain it. For $3.8 billion, Indiana agreed this year to lease its toll road, which is part of I-80 and I-90, to an Australian-Spanish consortium for the next 75 years. The consortium will maintain the highway and keep the tolls; and it will no doubt face public pressure to do a good job. But it will not be selling squash juice from roadside stalls.

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How to save the world

Bolton v Gore

Jun 22nd 2006 | WASHINGTON, DC
From The Economist print edition

A question of priorities: hunger and disease or climate change?

TWO years ago, a Danish environmentalist called Bjorn Lomborg had an idea. We all want to make the world a better place but, given finite resources, we should look for the most cost-effective ways of doing so. He persuaded a bunch of economists, including three Nobel laureates, to draw up a list of priorities. They found that efforts to fight malnutrition and disease would save many lives at modest expense, whereas fighting global warming would cost a colossal amount and yield distant and uncertain rewards.

That conclusion upset a lot of environmentalists. This week, another man who upsets a lot of people embraced it. John Bolton, America's ambassador to the United Nations, said that Mr Lomborg's "Copenhagen Consensus" (see articles) provided a useful way for the world body to get its priorities straight. Too often at the UN, said Mr Bolton, "everything is a priority". The secretary-general is charged with carrying out 9,000 mandates, he said, and when you have 9,000 priorities you have none.

So, over the weekend, Mr Bolton sat down with UN diplomats from seven other countries, including China and India but no Europeans, to rank 40 ways of tackling ten global crises. The problems addressed were climate change, communicable diseases, war, education, financial instability, governance, malnutrition, migration, clean water and trade barriers.

Given a notional $50 billion, how would the ambassadors spend it to make the world a better place? Their conclusions were strikingly similar to the Copenhagen Consensus. After hearing presentations from experts on each problem, they drew up a list of priorities. The top four were basic health care, better water and sanitation, more schools and better nutrition for children. Averting climate change came last.

The ambassadors thought it wiser to spend money on things they knew would work. Promoting breast-feeding, for example, costs very little and is proven to save lives. It also helps infants grow up stronger and more intelligent, which means they will earn more as adults. Vitamin A supplements cost as little as $1, save lives and stop people from going blind. And so on.

For climate change, the trouble is that though few dispute that it is occurring, no one knows how severe it will be or what damage it will cause. And the proposed solutions are staggeringly expensive. Mr Lomborg reckons that the benefits of implementing the Kyoto protocol would probably outweigh the costs, but not until 2100. This calculation will not please Al Gore. Nipped at the post by George Bush in 2000, Mr Gore calls global warming an "onrushing catastrophe" and argues vigorously that curbing it is the most urgent moral challenge facing mankind.

Mr Lomborg demurs. "We need to realise that there are many inconvenient truths," he says. But whether he and Mr Bolton can persuade the UN of this remains to be seen. Mark Malloch Brown, the UN's deputy secretary-general, said on June 6th that: "there is currently a perception among many otherwise quite moderate countries that anything the US supports must have a secret agenda...and therefore, put crudely, should be opposed without any real discussion of whether [it makes] sense or not."

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Rural ambulances

Condition: critical

Jun 22nd 2006 | GARBER, OKLAHOMA
From The Economist print edition

A shortage of volunteers is squeezing rural emergency services

DRIVING through tiny Garber, a once-thriving town in central Oklahoma, is thoroughly depressing. Most of the shops on Main Street, save for Billy Bobs Bar and a fitness centre, are boarded up. In a large shed next to the City Hall, a beautiful white ambulance—the newest-looking thing in town, complete with a defibrillator—sits alongside an old pick-up, a tractor and some trailers. Alas, the vehicle has not made a run for about eight months. This is not because it is unwanted but because there is no one to staff it.

The Garber ambulance used to make 80 or 90 runs a years. But stricken residents must now wait 25 minutes (instead of six minutes) for help. The town is not alone in its plight. Shawn Rogers, head of Oklahoma's emergency medical services, says that ten rural ambulance services have come to a stop over the past five years. Nor is Oklahoma alone. The struggles extend from the Texas Panhandle all the way to North Dakota, where two ambulance services have shut down in the past year. Air ambulances are no answer since they have trouble flying in bad weather and have had several crashes in recent years.

In cities, professionals man the ambulances but most rural ambulances are staffed by volunteers: local people who devote hundreds of hours to training. Basic EMTs (emergency medical technicians) do over 100 hours; paramedics, a rare species in rural areas, do more than 1,000. But as people get busier and rural America shrinks, volunteers become harder to find. In Garber, one of the volunteers went to work for the telephone company so is not around enough. Another moved away. “We had a death here recently in our town that I think would have been saved,” says Hal Long, the treasurer for the ambulance service. He hopes to revive the service with the help of a schoolteacher currently having medical training.

Even as rural services are struggling, demand is increasing. Baby-boomers are reaching their 60s, which means more strokes and heart attacks. In Oklahoma City, says Mr Rogers, one ambulance service is braced for a doubling of yearly runs. In rural communities—where the young tend to leave and the old to stay behind—the need will be even greater.

Another worry is reimbursement. Though much of the burden falls on Medicare, the insurance programme for the aged, transport by ambulance may not be covered. Sometimes a hospital stay is paid for but getting there by ambulance is not. In any event, worries Mr Rogers, ambulance reimbursement is not keeping pace with inflation. Another problem is the rising cost of petrol, especially out west where villages may be 100 miles from the nearest hospital.

Can anything be done? Last week, Craig Thomas, a Republican senator from Wyoming, introduced a bill that would make it easier for rural ambulance services to get money (by coming up with a better definition of “rural” and by boosting reimbursement for small hospitals' ambulances). But even if Congress does not act, experts on coping with emergencies are hoping to bring more efficiency to the business. “We're promoting regional systems,” says Mr Rogers. He adds that sometimes, when towns have played against each other in football, “we don't see the kind of collaboration you would like.”

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Moving house

Meet the half-backs

Jun 22nd 2006 | TAMPA, FLORIDA
From The Economist print edition

People who came south and then half-changed their minds

FLORIDA has long been the siren of the eastern seaboard, luring northerners to a sunnier existence. But, once lured, many of these snowbirds start to complain—and some start contemplating further flight.

Traffic in the Sunshine State is increasingly heavy and dangerous (some 3,400 people died in car accidents last year). Crime is rife. House prices have doubled since 2000. And the weather, though undeniably nice, also includes hurricanes and humidity. Florida is no longer even the favourite destination for summer holidays: according to the latest edition of a national travel survey, more Americans now, for the first time, prefer to go to California.

Many disappointed northerners decide to move halfway back, to other southern states. Some of these “half-backs” move permanently; others take summer homes. “We really don't have a mechanism for measuring them,” confesses Hal Wood at the Atlanta branch of the Census Bureau. “It's a fairly new phenomenon.” But they are popping up all over the South.

One half-back haven is Cherokee County, North Carolina. Tucked safely into the Great Smoky Mountains, it is hurricane-proof and cheap, with some land selling for as little as $8,000 an acre. Many of the half-backs treat Cherokee as a summer home. The county's population is officially around 25,000, but in summer the number rises substantially with Florida licence-plates clogging the roads of the two main towns, Murphy and Andrews.

But a growing number of half-backs are making a permanent move. Amy and Dave Johnson, who run the Daily Grind, a coffee shop in Murphy, used to live in Orlando, where he worked for an asbestos-removal company and she for EPCOT. “We were very much the typical overworked Orlando couple, doing most of our talking to each other on cell phones,” explains Mrs Johnson. They chose Murphy as a summer home because it was within eight hours' drive of Orlando and offered decent fly-fishing. They rented a cabin in 1996 and decided to move permanently in 1999.

This half-exodus does not upset Florida's fans; it still had the biggest numerical population increase in the union last year, of 404,000 people. Gary Mormino of the University of South Florida points out that since 1950 some 1,000 people a day have moved into the state, while only around 250 a day have moved out.

Even so, the half-backs, most of whom are retired, could have an effect on state politics. Nobody knows their party affiliation. But Susan McManus, another USF professor, has a hunch that they tend to be people well over 70, who are likely to get more fed up with the heat. The average age of retirement has been coming down, and these older people are often Democrats, hailing originally from the liberal north-east.

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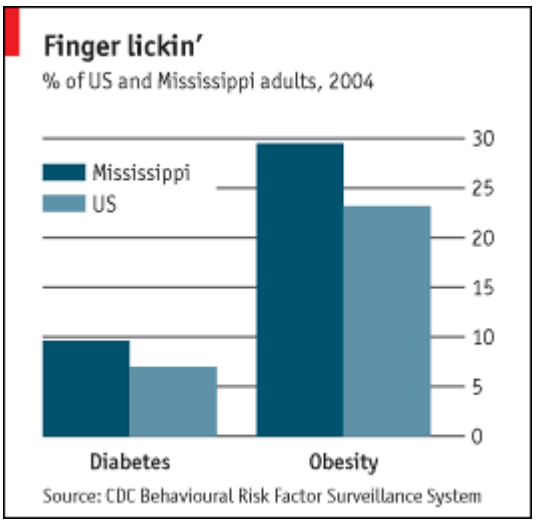
Obesity in Mississippi

Big is bad

Jun 22nd 2006 | JACKSON, MISSISSIPPI
From The Economist print edition

Mississippians ask the lord's blessing to help them slim



PEOPLE do not link Mississippi to healthy living. The southern, bible-belt state is famous for its hospitality, strong religious convictions—and its fried, syrupy food. Generations of Mississippians grew up on farms where everything, even collards and turnip greens, were cooked with bacon grease, ham hock or lard; a tradition that remains today. Last week the state's governor, Haley Barbour, declared that enough is enough: time for change.

His stand is valid. Thanks to decades of over-eating and sedentary living, Mississippi has America's worst rates of obesity, cardio-vascular disease and hypertension, and second worst for diabetes. Almost 65% of its adults are overweight or obese. The state is nearing a health crisis with tens of thousands of people suffering in one way or another from their fat and sugary diet.

Mr Barbour, a bit rotund himself, won't deny his penchant for fried chicken and ice cream. Yet this month he cut back and on June 15th he launched a Healthy Mississippi Summit to inspire others to do the same. More than 400 people, including health professionals, attended a long day of salutary talk.

Over a lunch of grilled (not fried) chicken, baked vegetables and cheesecake (using light cream cheese), David Katz , an obesity expert from Yale, said that vending machines and all junk foods must be removed from schools, and that physical education, which is not required in Mississippi's high schools, must be taught. After lunch, state health experts and local pastors raised other solutions: encouraging regular health checks, teaching mothers about nutrition, exercise nights at churches and community centres. Guest speakers from nearby states, including Arkansas, where the governor recently lost 110lb (50kg), talked about their health programmes in the hope that these might work in Mississippi too.

Local response to the summit was positive. Catherine Singleton-Walker, a social worker, is thrilled that the government is involved. She especially frets about African-American women like herself who grew up believing that big is good and beautiful. Young women, she says, want to emulate black celebrities like the singer and actress Queen Latifah. They believe they can be gorgeous, rich and big too but this is a myth. “We're all in denial. Most of us are hurting ourselves.”

Even so tipping the scales will not be easy. Dee Cook from Arkansas's Education Department related how teenagers, and their parents too, rebelled when the state first removed vending machines containing sodas, sweets and crisps from schools. “It was tough. They hated us. Be prepared for a fight.” Victor Sutton, director of preventative health for Mississippi's Health Department, showed how tricky it would be to reverse the causes behind obesity: poor city planning means few parks, gyms and paths for walking; many urban neighbourhoods are poor and too rough to jog around safely.

Then there is the tradition, comfort and undeniable flavour of southern food. Your correspondent's father-in-law grew up on a Mississippi cotton farm where everyone ate the whole pig: crackling and trotters, innards and meat. Pork fat was even used to cure sausages because refrigerators were scarce. The food tasted great and nobody grew fat, he says, because they worked the land. The trouble started when everyone began sitting still.

Away from the conference, locals bemoan the cultural pressure to overeat and the general complacency about being big. People decide they should be big, because other members of their families are big, or because they believe that if something has to kill you, why not food?

Slimming Mississippi will be a struggle but Mr Barbour and others are determined. Hospitals have joined with black churches to offer free screenings for high blood pressure, hypertension and diabetes. These will be held at local churches, and more than 100 churches are likely to take part. Last week, the Community Foundation of Northwest Mississippi, a non-profit group, got some money to teach people about nutrition, and also a grant for its childhood obesity programme. The will is strong and that counts for a lot, says Ms Walker. “Change takes time. But if we adjust our attitudes and have the good Lord's help, it can be done.”

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Getty museum

A dubious Venus, or two

Jun 22nd 2006 | LOS ANGELES
From The Economist print edition

Returning stolen property, perhaps

Reuters

WHAT price the diplomatic skills of Michael Brand, director of the Getty museum that houses one of the world's finest and largest collections of Greek, Roman and Etruscan antiquities? This week, Mr Brand was in Rome to resume negotiations with Italy's Ministry of Culture over 52 antiquities in the Getty's collection that the ministry believes to be stolen loot. This estimate may be conservative: a day earlier, the *Los Angeles Times* disclosed that, according to an internal review last year by the J. Paul Getty Trust, the museum has 350 antiquities of dubious provenance.

The problem is that in building its collection—some 44,000 antiquities, of which 2,500 are thought worthy of display—the Getty has too often bought from dodgy dealers, suspected or convicted of buying and selling looted goods. Some antiquities, for example, were acquired from Giacomo Medici, a dealer now appealing against a ten-year prison sentence in Italy for illegal dealing. Others came from Robert Hecht, an 87-year-old American. Mr Hecht is now on trial in Rome together with Marion True, the Getty's former curator of antiquities, on charges of criminal conspiracy and the receipt of stolen artefacts. Ironically, Ms True, whose legal costs are being paid by the Getty, was a leading figure in efforts to clean up the trade.

The trial may complicate Mr Brand's task but so far his skills seem up to the job. On June 21st the two sides announced a tentative agreement (it must still be approved by the Getty trustees) to return “a number of very significant” pieces. With luck, a full agreement may be reached within weeks. As a Getty spokesman commented, “It's very clear that we have a mutual interest in resolving this matter.”

The worry is that the greater the number of antiquities in dispute, the harder it may be for a deal to stick. Even before the report in the *Los Angeles Times*, the Italians had identified a further 33 artefacts that they believe should be returned. They might now think of more, and similar thoughts may occur in Greece. Mr Brand was in Athens in May, for talks with the Greek authorities over just four disputed items. A subsequent Getty statement said that “the representatives of the Museum will recommend to the board of Trustees the return of some of the claimed antiquities in the near future.” So far, there have been no complaints from Turkey, but given the richness of that country's classical heritage, the risk is clearly there.

One difficulty for the Getty is that many of the antiquities in dispute are among its most treasured and most visible. Prominent on the Italians' list, for example, is the huge statue of Aphrodite on display in the “Gods and Goddesses” room of the Getty Villa, a splendid faux-Roman building perched above the Pacific that re-opened in January after a nine-year renovation costing $275m. Another item is the magnificent pair of griffins on the villa's upper storey.

Yet the horizon for the Getty is clearing. One reason for optimism is that museums the world over have similar problems and nobody really believes a mass transfer of antiquities is practical. Another reason is that Mr Brand came to the Getty only last August, which means he has no personal link to a dubious Venus or suspect Apollo. The model solution for the Getty is the one achieved in February by New York's Metropolitan Museum of Art, which agreed to return 21 disputed antiquities to Italy in return for loans from Italy of artefacts of “equal beauty and historical and cultural significance”. This week's tentative

deal is a big step in a similar direction.

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Lexington

The scribe

Jun 22nd 2006
From The Economist print edition

The speech-writer who set George Bush's instincts to music is leaving the White House

THE president is hardly one of nature's public speakers. He is addicted to odd words (“suiciders”) and even odder phrases (“I know how hard it is for you to put food on your family”). The average George Bush press conference is a white-knuckle ride across painful silences, weird mispronunciations (“nukiller”) and cackling laughter. Tony Snow, Mr Bush's recently appointed press secretary, once wrote a column accusing him of sounding like “a soul tortured with Tourette's”.

Yet the Tourette's victim has delivered some of America's finest presidential speeches. Hendrik Hertzberg, a liberal *New Yorker* columnist and a former speech-writer for Jimmy Carter, described Mr Bush's first inaugural address as “shockingly good”. He thought that “it was better than all but a tiny handful of all the inaugurals of all the presidents since the Republic was founded”. William Safire, a former speech-writer for Richard Nixon, rated Mr Bush's second inaugural address as “among the top five of a score of second-inaugurals in our history”. Mr Bush's address in the National Cathedral shortly after September 11th 2001 was a rhetorical masterpiece—consoling a grieving nation but also flashing a hint of steel.

The man who explains this strange paradox—a Texan crow singing like a lark—is about to leave the White House. Michael Gerson is something of an odd-man-out in the administration. He is a scholarly “worrier” in a group that is hardly known for its doubts, a man who looks as if he would be more at home in an Oxford common room than the West Wing. Yet Mr Gerson is one of Mr Bush's closest aides—the author of his most famous public words over the past seven years and the most influential wordsmith since Ted Sorenson worked magic for John Kennedy. He has not only achieved the necessary “mind-meld” with his boss but has been elevated to the unique position of “conscience of the White House”.

Mr Gerson's ticket to the inner circle was partly raw talent. He burnished his reputation as a Republican wordsmith working for Dan Coats, a former senator for Indiana. Mr Bush, then governor of Texas, offered him the job of chief speech-writer at their first meeting back in 1999. But it was also a matter of shared faith. Mr Bush famously turned to God in middle age, after a dissolute youth; Mr Gerson was on a faster track, studying theology at Wheaton College in Illinois (motto: For Christ and His Kingdom), and

contemplating studying at a seminary. The Bush-Gerson melding of minds is essentially a melding of faiths.

Mr Gerson has infused Mr Bush's set-piece speeches with religious imagery. To read Gerson is to enter a world of “wonder-working power”, of wounded travellers on the road to Jericho and angels who ride in the whirlwind and direct the storm. But Mr Gerson's influence is not limited to words. He is also one of Mr Bush's most influential policy advisers; indeed, after he suffered a heart attack in 2004, when he was still only 39, he focused more on policymaking. Michael Cromartie, of the Ethics and Public Policy Centre, points out that he did more than anyone else to shape Mr Bush's policy of “compassionate conservatism”, particularly the core idea that faith-based charities are better at delivering social services than impersonal bureaucracies. He was influential in persuading Mr Bush to spend $15 billion on AIDs in Africa and was one of the leading advocates of the “freedom agenda” in the Middle East.

Mr Bush's fondness for religious language and biblical references has provoked a storm of criticisms. Many of these are plain silly. One is that Mr Gerson habitually inserts dog-whistles into his speeches to motivate evangelical voters. But Mr Gerson's religious references are hardly concealed; and it is unreasonable to expect a speech-writer to cut himself off from one of the great traditions of Western rhetoric. Do that and you end up producing the sterile banalities of corporate speeches.

Another criticism is that Messrs Bush and Gerson overstep the mark that separates church from state. But the establishment clause in the constitution was intended to prevent the creation of an established church, on the model of the Church of England, not to prevent religious believers from expressing their beliefs in the public realm. Religious rhetoric has always been a staple of presidential pronouncements (Bill Clinton referred to Jesus even more frequently than his successor does); and Mr Bush has made every effort to be ecumenical, going out of his way to mention Muslims and mosques.

Raising hope too high

But two criticisms carry a real sting: one about Mr Bush's audience, and the other addressing the gap between rhetoric and reality. American presidents are inevitably speaking to the whole world not just their own people—and never more so than when they launch a global war on terrorism. This might suggest the need for caution, given Europe's suspicion of religion and Islam's fear of Crusader states. But Messrs Bush and Gerson have repeatedly allowed their rhetoric to run away with them, most controversially when they branded Iraq, Iran and North Korea an “axis of evil”. What produced thunderous applause in Congress created profound unease in the chanceries of Europe.

More worrying is the gap that occurred between rhetoric and reality. Mr Gerson's pet project of “compassionate conservatism” has been a disappointment, with two of its champions, John DiIulio and David Kuo, leaving the White House in frustration. And he responded to America's setbacks in Iraq by revving up the rhetoric, even talking about “ending tyranny in our world”—a dangerous example of defining success upwards. Mr Gerson once coined a memorable phrase about the “soft bigotry of low expectations”. But too often the speeches that he wrote, wonderful as they sounded, have erred on the side of the lofty rhetoric of inflated expectations.

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Brazil's elections

An outsider with a (slight) chance

Jun 22nd 2006 | SÃO PAULO
From The Economist print edition

At the start of Brazil's presidential race, Lula remains the firm favourite, but there is a dark horse in the running

Reuters

FEW Brazilians will notice when campaigning for the country's multiple elections starts on July 5th. Apart from the likelihood that Brazil's footballers will still be contesting the World Cup in Germany, new rules ban candidates from distributing T-shirts and baseball caps and sponsoring the street concerts that normally liven up campaigns. Then there is the seeming lack of suspense: President Luiz Inácio Lula da Silva, who is expected to confirm by June 24th his candidacy for re-election, looks set to trounce his only serious challenger, Geraldo Alckmin, until recently governor of the state of São Paulo, in the first round of voting on October 1st.

Yet there are reasons to take notice. Mr Alckmin's nickname, *picolé de chuchu* (a tasteless vegetable on a stick), suggests why he will have difficulty puncturing the popularity of Lula, a charismatic former trade unionist who regards himself as the father of Brazil's poor. But the former popular governor of Brazil's biggest state offers an alternative to (mainly middle-class) Brazilians who consider Lula's government incompetent and will not forgive its corruption. Lula's lead is likely to narrow as voters outside São Paulo get to know Mr Alckmin. Whoever wins, what the next president can accomplish will depend largely on the outcome of the other races: the entire lower house of Congress, a third of the Senate, the governors of all 27 states and the state legislatures are all up for grabs on the same day.

Lula has recovered from political near-death. Last year the economy stalled briefly while a baroque corruption scandal, dubbed the *mensalão* (monthly stipend), picked off his closest associates one by one. Lula owes his comeback to an economic rebound (powered in part by public spending), to the launch of a welfare programme that provides a basic income to 36m people—a fifth of Brazil's population—and to the absence of hard evidence that he personally orchestrated the *mensalão*. People know the facts of the scandal, says Márcia Cavallari of IBOPE, a polling firm, but accept Lula's argument that he was betrayed by his own people.

Mr Alckmin, candidate of the centre-left Party of Brazilian Social Democracy (PSDB), is struggling to change that impression. “Where is the boss of the 40 thieves?”—those indicted in the *mensalão* scandal—he demands. Beyond his claim of greater integrity, he is offering himself as a Lula-plus: Lula's welfare

scheme will be kept, macro-economic stability preserved. But Mr Alckmin promises a tougher line on public spending. This, he maintains, is the key to cutting taxes, interest rates and the value of the real, all of which are keeping economic growth below what it should be. He will also deliver a “management shock” to the administration. Yet neither he nor Lula will dare propose what is needed to defuse what he calls Lula's “fiscal bomb”: a pension reform including higher retirement ages and the delinking of benefits from the minimum wage.

Mr Alckmin insists that his huge 30-point lag in the polls will disappear once free television campaign advertising starts on August 15th, if not before. He would stand a better chance if he had more enthusiastic allies. The right-of-centre Liberal Front Party (PFL), Mr Alckmin's main election partner and the party of his running mate, José Jorge, complains bitterly about the PSDB's selfishness in forming state-level alliances. José Serra and Aécio Neves, the PSDB's candidates for governor of São Paulo and Minas Gerais, respectively the two most populous states, ought to be Mr Alckmin's strongest backers. But both have their eye on the presidency in 2010, which would be easier to win with Lula retiring than with Mr Alckmin running for re-election. To motivate them, he may promise a one-term presidency.

Although the presidential election is a two-horse race (there will be other candidates but they are unlikely to matter much), up to two dozen parties will contest the state and congressional elections. These are largely divorced from the presidential vote, but the results will have consequences for the next president. The centrist Party of the Brazilian Democratic Movement (PMDB), which is likely to elect the most governors and congressmen, has neither fielded its own presidential candidate nor formally backed any other, in order to be able to make deals with whatever parties can help its cause in the states. In some (the Amazonian state of Amazonas, for example), the PMDB will hook up with Lula's Workers' Party; in others (such as Pernambuco), the PSDB is a likely partner. Small parties, threatened with extinction by a new requirement to win at least 5% of the vote, are using similar tactics.

Although Lula is riding high in the polls, his party is expected to lose seats in Congress because of the scandals, and to be a troublesome coalition partner if he wins. It sniped at his orthodox economic policies throughout his first term and is likely to reject such reforms as formal independence for the central bank and elimination of the budget deficit all the more fiercely if its congressional losses are big. Christopher Garman of Eurasia Group, a consultancy, argues that gains in the poor north-east will help offset losses in south-eastern states such as São Paulo. Even so, Lula will need the PMDB to shore up his government if he wins, as would Mr Alckmin. But the PMDB is little more than a label for a group of independent regional barons. Their loyalties are bought piecemeal in return for the perks of office. Whoever wins next October's election will have a hard time slimming the state.

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Canada

Ulterior motives

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Canada gives a belated apology to its Chinese immigrants

C$500 per head—too much for Mrs Lee to afford

IN ONE of the more shameful episodes of its past, Canada imposed a hefty head tax on all Chinese immigrants in 1885, then banned their entry altogether from 1923 to 1947. For the 15,000 or so Chinese men who had come to build Canada's transcontinental railway and the many more that came thereafter, it became first prohibitively expensive and then impossible to send for their wives and children.

For decades, Canadians of Chinese descent have demanded an apology and redress. Successive federal governments ignored them, apologising to various other groups, including 14,000 Japanese-Canadians, who also received C$21,000 ($17,000 at the time it was paid in 1988) each for their internment and property expropriation during the second world war. Fearing this might open the floodgates, a Liberal government declared in 1994 that the past was the past and that no further compensation would be forthcoming.

Given this, the decision this week by Stephen Harper, the Conservative prime minister, to offer both an apology and compensation to Chinese-Canadians might seem surprising—but not if the politics behind it are taken into account. While only about 20 of those who paid the head tax are still alive and fewer than 300 of their widows, Chinese-Canadians now form a community of around 1m with considerable political and economic clout. And its members form a crucial link in Canada's burgeoning trade with China.

Before January's general election, the former Liberal government angered the group by offering a programme of acknowledgment and education to cover all wronged ethnic groups, but no explicit apologies. Mr Harper, whose party lacks support in urban and immigrant communities, adroitly stepped in with a campaign promise both to apologise and to compensate. He has been true to his word.

Whether this will set a precedent for many other aggrieved groups is doubtful. Some, like the Canadian Jewish Congress, want only acknowledgment rather than financial compensation (for the government's refusal to allow the 907 German Jewish refugees on board the *St Louis* to land in Canada in 1939). The federal government did set aside C$2.2 billion in the last budget to compensate the children of aborigines who were taken from their parents and abused in residential schools. But that was to resolve a mountain of lawsuits that it was in danger of losing.

Still, there is hope for others if they follow the Chinese-Canadians' lead. A federal election is expected as

early as next spring, when Mr Harper hopes to turn his minority into a majority. An immigrant group concentrated in an urban area is certain to get the ear of any Conservative candidate. And perhaps an apology too.

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Haiti

An uphill struggle

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Haiti's long road to political and economic recovery

AFTER successful presidential and parliamentary elections earlier this year, Haiti is at last beginning to look more like a proper democracy. Security on the streets is much improved and local businesses have begun to recover from the near anarchy that reigned for two years after President Jean-Bertrand Aristide was ousted in 2004. It has been a long time since Haiti had a president, a full parliament and a prime minister all at the same time. Now, under the leadership of President René Préval and his prime minister, Jacques-Edouard Alexis, the country should be able to move forward.

But given Haiti's long history of insurrection, dictatorship and political infighting, analysts remain cautious. “Big structural challenges still threaten what may be Haiti's last chance to extricate itself from chaos and despair,” says Mark Schneider, of the International Crisis Group.

In Haiti, where the prime minister's appointment requires parliamentary approval, putting a government together is not easy. For much of Mr Préval's previous presidency from 1996 to 2001, he was obliged to rule by decree after parliament refused to accept his nominee. This time, although his Lespwa (Hope) party still does not hold an absolute majority among the 18 parliamentary parties, he had no trouble in getting Mr Alexis, a close ally and fellow agronomist, accepted—thanks to the disintegration of Mr Aristide's once all-powerful Lavalas Family party and a new national mood of reconciliation. Unlike the previous ferociously anti-Aristide interim government under Gérard Latortue, the new cabinet is broadly based, with ministers from six different parties, including one from Mr Aristide's own camp.

But Haiti is still a long way from being able to stand on its own. Mr Préval has already asked the 9,000-strong UN peacekeeping mission to Haiti to extend its mandate. This should not be a problem, thanks to the continued commitment of South American suppliers of troops to the mission—Brazil, Argentina and Chile. A new civilian police force is also being trained, but it is expected to take three years to reach the minimum required strength of 20,000.

A fresh UN mandate, focusing more on social, political and economic reform as well as police training, is now being discussed. New international funding to carry the country forward, at least until the end of next year, also seems to be in prospect. Potential donors are due to present plans at a conference in Haiti next month. The new head of Haiti's UN mission, Edmond Mulet, a Guatemalan diplomat, is urging them not to “slacken [their] pace now”, noting that previous international efforts to rescue Haiti had failed because they were too short-lived.

For the moment, international goodwill seems to prevail. Mr Préval impressed donors on a recent trip to Washington with his very specific requests for help in improving access to education and in providing school meals. His new cabinet has attracted widespread approval. Important structural reforms over the past two years, including stricter oversight of public bidding and reduced use of “discretionary” funds to keep the budget deficit in check, have also helped. But potential donors remain frustrated by the lack of strong institutions through which to channel aid.

Meanwhile, big international organisations are forging good working relations with grassroots movements in the country. With financial support from the World Bank and the US Agency for International Development, and crucial backing from Yéle Haiti, a private foundation set up by a Haitian-born multi-millionaire hip-hop musician, Wyclef Jean, the Pan-American Development Foundation is employing some 1,500 street cleaners in the capital, Port-au-Prince. It has already successfully pioneered community-driven development in rural Haiti and now hopes to use that model to rehabilitate urban infrastructure, such as drainage canals. The World Bank is drawing up plans to fund education projects, while the

European Union is looking into a road-building programme.

But the way ahead is rough. Haiti is poorer today in real terms than it was in 1955. With an annual income of just $390 per person, some two-thirds of its 8.3m inhabitants live below the poverty line, according to the UN. Life expectancy is a mere 52 years, and dropping. “That's what mayhem will produce,” says Daniel Dorsainvil, a respected American-educated development economist and Haiti's new finance minister. “We cannot afford not to change. It's a matter of urgency.”

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Chile

Testing times for Michelle Bachelet

Jun 22nd 2006 | SANTIAGO
From The Economist print edition

After its first 100 days in office, Chile's new government starts to feel the strain

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CHILDREN and honeymoons don't mix, as Chile's new president, Michelle Bachelet, found to her cost when children at the country's secondary schools came out on strike last month. Their demand for better education not only interrupted her supposed idyll with the electorate, but also exposed apparent inconsistencies in the promises with which she had wooed the country.

When Ms Bachelet, a socialist, took office on March 11th at the head of a centre-left coalition that has ruled Chile since democracy was restored in 1990, she offered both continuity and change. While pledging to maintain the prudent economic management that has underpinned Chile's high growth, she also undertook to spend more on social programmes and to improve equality of opportunity. While promising effective government and fast results, she vowed, too, to give voters a greater say in matters affecting their lives.

The schoolchildren took her at her word, taking to the streets and occupying schools for three weeks as they gave vent to years of frustration, shared by their parents, over the low quality of education in general and the alarming deficiencies of the state schools that serve the poor in particular. The students also questioned the government's insistence on tight spending. With state coffers brimming with record income from copper, Chile's main export, why, they asked, didn't the government put its money where its mouth was and invest in their future?

But before more money is spent on education, better control mechanisms are needed. To the government's credit, it eventually stood reasonably firm on the students' demands. At first, however, it was a shambles. After underestimating both the students' determination and public sympathy for their cause, the government seemed to waver, constantly shifting ground while ministers contradicted each other. In the end, the students' return to classes on June 13th was mainly due to their internal divisions and the exhaustion of their leaders.

The episode has dented Ms Bachelet's popularity. “When I voted for her, I thought she understood us, but she's just the same as all the other politicians,” one working-class mother complained. Although the president's personal approval rating is still running comfortably over 50%, support for her cabinet has plummeted: 74% of Chileans think there should be a reshuffle, according to one recent poll. That may happen but, more importantly, the students' protest raises the question of whether Ms Bachelet will be able to find the right balance between public expression and public order, citizen participation and effective government.

In response to the strike, she has set up a national advisory committee with over 70 members, including student, teacher and parent representatives as well as educational experts, to make recommendations on school reform. Although this may serve as a safety valve, it is doubtful—given its unwieldy size and its members' contradictory views—whether it will be able to agree on much of importance.

Ms Bachelet is also being criticised for running too tight a ship, thus undermining her ministers' ability to produce results. “They're all inhibited. She needs to chart a clearer course and delegate more power,” says Sergio Bitar, leader of the Party for Democracy, one of the coalition partners. The problem is

exacerbated by the ministers' lack of experience; only two have previously held cabinet posts and some have had no government experience at all. Ms Bachelet did not help when, earlier this month, she publicly harangued them on the need to do better.

Her lack of trust in her ministers may also lie behind the new restrictions on press access to government officials. Off-the-record conversations have, for example, been banned. That move, privately lamented by most government ministers, not only puts a question mark over Ms Bachelet's stated commitment to more open government, but also poses a potential threat to accountability.

But early mistakes were inevitable in a government that raised so many expectations, and it would be unfair to judge Ms Bachelet on one school test. After all, barely three months into a four-year term, she still has plenty of time, as well as room, for improvement.

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China's next building site

Building the nation

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EyePress

Planning a rival for Shenzhen and Shanghai

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ITS economy shows few signs of needing one, but China is revving up what officials call a “new engine of growth” to supplement the dynamos of Shanghai and Shenzhen, the two port cities at the forefront of the country's economic transformation. A strip of industrial sprawl and barren semi-wasteland that stretches for 150km (90 miles) along the northern coast is being turned into a development zone far bigger than either Shanghai's or Shenzhen's. And its planners have been given the central government's blessing to experiment with a wide range of economic and bureaucratic reforms.

The government has high hopes for this venture. The Binhai New Area, as the zone is called, is intended to help a swathe of northern China, including the capital, Beijing, and the provinces around the Bohai gulf (see map), enjoy the same kind of economic boom generated by Shenzhen in the Pearl River delta and by Shanghai in the lower reaches of the Yangtze. With the help of tax incentives and (for now) far cheaper land than either Shanghai or Shenzhen, officials hope to make the zone a manufacturing powerhouse for everything from aircraft and cars to microchips and chemicals.

They want Tianjin city to regain its pre-Communist era status as north China's financial capital. Binhai's port, already north China's largest, is due to double its container-handling capacity by 2010. The zone has also allocated an expanse of coast for recreation: an old Soviet aircraft carrier is moored in one desolate spot as the centrepiece of what is intended to become a military theme park. It offers fashion shows in its cavernous hangar bay.

The green light for Binhai has been a long time coming. Tianjin's leaders established the zone in 1994, but it was not until last year that the central government gave a clear signal that it regarded this as a project of national importance, not just a local venture. In March the development of Binhai was listed as one of

the country's goals in a five-year economic plan adopted by China's legislature. On June 6th a central government document declared Binhai to be an “experimental zone for comprehensive reform”. Hitherto only Pudong New Area, Shanghai's flagship development zone, had enjoyed this title, which it acquired last year.

Binhai has emerged as the development zone darling of China's president, Hu Jintao, and its prime minister, Wen Jiabao (himself a native of Tianjin), just as Shenzhen was to the late Chinese leader Deng Xiaoping in the 1980s and Pudong was to Mr Hu's predecessor, Jiang Zemin. Shenzhen, which is adjacent to Hong Kong, and Shanghai, with its pre-Communist history of capitalist flair, were obvious places to set up zones offering privileged terms to foreign investors. In the north, more deeply imbued with old-style Communist thinking and riven by rivalries (not least between Tianjin and neighbouring Beijing), choosing a place to act as economic trend-setter and investment hub proved more difficult. Lobbying by Tianjin's mayor, Dai Xianglong, a former chief of the central bank who took up the city post in 2002, clearly helped.

The prominence recently given to Binhai suggests that for all the leadership's rhetoric about pushing more investment towards less developed regions in the centre, west and north-east of the country, the coast is still seen as the best bet for sucking in money. By naming Binhai as a testing ground for reform, the leadership is also sending a signal that it is not fazed by recent public criticism of some aspects of economic change, including the inroads made by foreign investors. Binhai hopes another $20 billion of foreign capital will be invested in the zone by 2010, compared with $15.9 billion between 1994 and the end of last year (most of it in the Tianjin Economic-Technological Development Area, a long-established foreign investment enclave within Binhai where the likes of Motorola, Toyota and Samsung have large factories). And despite worries about overheating, Binhai is aiming for average annual GDP growth of 17% for the next five years. In the same period, it will spend $15 billion on infrastructure.

Binhai is still working out the details of its “comprehensive reform” package. Pi Qiansheng, a deputy Communist Party chief of Tianjin and Binhai's ebullient boss, says the central government is likely to approve them next month. Political reform is not high on the agenda, apart from efforts to streamline bureaucracy. Chinese leaders have been wary of calls by some academics for Shenzhen, 1,900km (1,200 miles) to the south, to be given greater freedom to conduct experiments with democracy. Binhai, much closer to Beijing, is hardly likely to be a trailblazer.

Binhai officials prefer to talk about reforms in the financial sector (more freedom for venture capitalists and private investment in banking) and what they call “land administration”. This is a euphemism for one of the most hotly debated issues of China's current economic reforms, namely whether, and how, to turn rural land into a marketable commodity. Remarkably for such a senior party official, Mr Pi says that “privatisation of land is a possibility”, although he suggests that this is not about to happen soon. Xiao Jincheng, a government researcher in Beijing, says Binhai is considering a different approach from that of Pudong and Shenzhen, where the government simply appropriated land from peasants with little compensation. Binhai's innovation could be to allow peasants to sell land-use rights and profit from the proceeds.

Market-oriented reforms will be less apparent in the supply of water. Tianjin, like much of northern China, has an acute shortage of it. Binhai will depend on water diverted from the Yangtze River basin, a massively expensive project, as well as desalinated seawater, which is also costly. The government, rather than industry, is likely to bear most of the burden.

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Economic zones in India

Playing catch-up

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New laws to encourage investment

INDIA was an early starter in the special-economic-zone business. It set up Asia's first export-processing area in 1965 at Kandla, in Gujarat, to provide goods for the then Soviet Union. Other smallish government-run export zones followed in the 1980s, but they were dogged by poor infrastructure and tortuous bureaucratic regulations. Since then, India has looked enviously at China's far larger and more successful zones.

India is at last moving into a bigger league. New laws allow for zones on virgin sites that range upwards from a minimum of 10 hectares (24 acres) for businesses such as software and bio-technology, to 1,000 hectares for multi-sector zones that might involve more than one developer and would include residential areas, hospitals, shopping centres and other amenities. Land will often be provided by state governments at concessionary rates, and both developers and operating units can receive tax breaks for up to 15 years, provided they are export-oriented.

The aim is to boost industrial investment and exports, while persuading the private sector to build social infrastructure that the states cannot afford. One example, announced this week, is a $5.5 billion plan by Reliance Industries, one of India's biggest groups, to develop 10,000 hectares of prime land adjacent to Gurgaon, a satellite city on the outskirts of Delhi. There are already rows, though, about the price it is paying.

Reliance has similar plans in Mumbai. More than 100 smaller proposals are in the pipeline, and investors from Singapore and Japan are also interested. Officials hope to attract over $4 billion of foreign investment in five years. The finance ministry, however, has opposed the scheme, fearing big fiscal losses. “Special zones are dysfunctional now we have widespread liberalisation across the board,” says Bibek Debroy, a leading commentator.

A larger and cheaper plan is now being touted by the industry ministry for industrial areas of 100-250 square km (10,000-25,000 hectares)—approaching the size of Shenzhen in China. These could embrace existing industrial areas. Like Noida, which has been developed to the east of Delhi, they would be run by statutory authorities set up by state governments, which would relax bureaucratic controls and could ease restrictions such as labour laws.

There would be no tax breaks, but the government would pledge efficient external transport links. The aim, says Ajay Dua, India's secretary for industrial promotion, is to “get over investors' difficulties of infrastructure and the time taken to get approvals, without any extra fiscal costs to the exchequer.” That would be good, if 30 years behind China.

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North Korea's missile

Theatre weapons

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Grabbing attention by going ballistic

AS THIS newspaper went to press, North Korea still looked to be on the brink of test-firing a ballistic missile capable perhaps of carrying a nuclear warhead as far as Alaska. In recent days American satellites have shown activity at a missile facility at Musudan-ri in the country's north-east consistent with filling a Taepodong-2 rocket on the launch pad with liquid fuel. The fuel is hard to siphon back out, and because it is corrosive can stay in the missile only for a matter of days.

Hence the presumption of an imminent firing. On the other hand, says Narushige Michishita of the National Institute for Defence Studies in Tokyo, it is easy to give the false impression of real activity around the missile, so perhaps the North Koreans are faking it. The only sure thing is that monsoon clouds are now closing round, making things harder for American spies, but also for North Koreans wanting to launch and track a missile.

Whether for real or for show, the preparations have caused outrage. George Bush's administration threatens tough action if a missile is fired. The secretary of state, Condoleezza Rice, says that any test would be a “provocative act”. Two Aegis-class cruisers are near the Korean coast, while America's new and largely untested missile-defence system in the Pacific is said to have been made operational.

South Korea has begged Kim Jong Il's regime not to “put a friend in danger” by firing the missile. A launch, indeed, would throw the South Korean government's whole policy of engagement into doubt. This week Kim Dae-jung, former president and architect of South Korea's “sunshine policy” towards the North, cancelled a planned visit to Pyongyang.

On June 20th Australia's foreign minister, Alexander Downer, gave warning that Australian food aid to North Korea was at risk. Meanwhile Japan's prime minister, Junichiro Koizumi, who this week announced that his country's 600 ground troops in Iraq were to be brought home, says that his country would “react severely” to a launch. When North Korea fired a less far-flying missile over Japan in 1998, it provoked outrage, and pushed the country to join America in developing missile defences.

Divining North Korean motives gets no easier. The six-party talks (involving America, China, South Korea, Japan and Russia) aimed at getting North Korea to give up its nuclear-arms programmes in return for aid, trade and security guarantees have been stalled since last November. North Korea has long wanted to treat with America bilaterally, a notion turned down again this month. The Bush administration says it will not even start to negotiate on other matters until North Korea abandons its programmes for reprocessing plutonium and enriching uranium. Meanwhile, financial sanctions by America over dollar counterfeiting and money-laundering is squeezing a regime that has relied on such activities.

So the posturing—if it does not represent the outward effects of hidden tensions within the regime, which are always possible—looks most like an attempt to grab America's attention and strengthen North Korea's hand. Though the North has succeeded in the first aim, missile theatricals will not help with the second. Until now, it has been possible for North Korea's two chief economic benefactors, China and South Korea, to intimate that American intransigence is chiefly to blame for the six-party talks being stalled. A missile launch would make that case untenable.

Yet the range of options for America and its allies looks limited. Military force is out of the question because of the danger to the South. The United States' new missile-defence system is, to put it charitably, unproven. Few extra sanctions are available to apply pressure on a state that is already so economically isolated.

So the greatest pressure will fall on those countries most engaged with the regime. China (North Korea's only official ally), even though unthreatened by its neighbour's missiles, has expressed worries too. It is urging North Korea and America to get talking about the missiles one-to-one—a sure sign of anxiety. And it will not want to carry even more of the cost of keeping Mr Kim's awful country going. A pain, then, for everyone.

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South Korea

A blow for the blind

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A protected trade is opened to competition, but the weak are hurt

BUY a hotcake from a South Korean street vendor and the chances are that he or she is deaf. Call on the services of a professional, registered masseur in the country and he will be blind or visually impaired. In South Korea some jobs have, by historical precedent or even legislation, been the preserve of those with disabilities.

However, a recent ruling by South Korea's Constitutional Court threatens to end the exclusive right of the visually impaired to become registered masseurs. The tradition of the blind masseur dates back almost a century to Japanese colonial rule and has been formalised in law. In the absence of a welfare system, the arrangement was designed to give blind people a protected way of earning a living. However, the courts have now ruled that restricting massage licences to the blind discriminates against sighted people who want to pursue the same trade. This overturned an earlier ruling three years ago, which had found in favour of the existing rules.

AP

What can he do now?

The court's verdict has ignited fierce protests by the blind, who say they are being stripped of the only work available to them. One masseur died after throwing himself from a high-rise building, apparently in protest, while others jumped onto the tracks of a Seoul subway station to highlight their plight.

More than 6,500 visually-impaired people are licensed to work as masseurs in South Korea, according to the Korean Masseurs Association (KMA). It now fears a flood of entrants into the sector that will drive out its members. The ruling opens the way for licensing massage parlours employing the sighted: until now, these have operated illegally.

Some people argue that the continued association of the business of massage with the blind demeans those in the profession, implicitly labelling them as restricted to this kind of work. Ideally, people with disabilities, including the blind, would have access to a wider range of job opportunities. But, says the KMA, the established tradition has served its members well. Prejudice, and a lack of official support, continues to restrict the choice of work for the blind, hence their fierce defence of their exclusive right to the trade.

The South Korean government is sympathetic. Earlier this month, the health minister, Rhyu Si-min, visited a group of masseurs who have been staging a protest on a big bridge in Seoul. The government has started talks with KMA officials to draw up measures to soften the impact of the court ruling.

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The Philippines

Muddling along

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Who needs a budget, Mrs Arroyo wonders?

THE year is almost half over and the Philippines' government still does not have a budget. Congress went into recess earlier this month, having neither approved the 2006 budget proposed by President Gloria Macapagal Arroyo nor agreed on an alternative. The chances of passing one now seem slim. Political turmoil is also blocking the progress of economic reforms and other much-needed laws.

It all looks bad. Yet the Philippines' financial situation is much improved since a year ago, when there were fears that it was heading for default. Since then, the government has won legal battles to broaden the value-added-tax base and increase the VAT rate. It has also improved revenues by cracking the whip over the sluggish and corruption-riddled tax-collection agencies. They are squealing at the demanding targets they have been set but so far they are, more or less, hitting them. The government has been able to bring forward, from 2010 to 2008, its self-imposed deadline for balancing its books.

The failure to pass a budget, a frequent occurrence in recent years, does not do much for the Philippines' image. But in some respects it is helpful for Mrs Arroyo's government. It will now have to re-run the 2005 budget. Since this is smaller than the one proposed for 2006, whereas revenues are rising, it should be easy to reach this year's deficit target, or even outperform it. Total public debt soared after the mid-1990s Asian financial crisis, peaking at over 100% of GDP. But by the end of last year it was down to 93% and it is set to continue falling. Since interest payments now absorb about one-third of the national budget, this should eventually liberate lots of money to increase social spending.

Just as helpful for Mrs Arroyo, a re-run of the 2005 budget will give her greater freedom on how to spend it, because money earmarked for projects that were completed last year can be used on other things. She might even be able to bend the rules to launch two flagship anti-poverty funds at the centre of the budget row.

The funds, together worth 8.7 billion pesos ($163m), would give grants to local authorities to improve drinking-water supplies and build schools and roads. One of them would be specifically for districts in the southern Philippines, in the hope of boosting the peace process with Islamist insurgents there. Many senators feared that the funds would be misused by the government to buy support ahead of next year's congressional elections. The Senate insisted on deleting them, putting it in conflict with the lower house, where Mrs Arroyo has more backing.

But the failure to pass the budget has a downside as well. Much of the spending increase Mrs Arroyo had planned for this year was for desperately needed improvements to roads and other infrastructure. The Philippines' investment in such areas is even more feeble than that of its main South-East Asian neighbours, holding the country back from the extra 2-3% of growth that it needs to make a dent in poverty. Much more private money would be forthcoming for such projects if public institutions, including the regulatory bodies that set electricity and water prices and road tolls, were reformed and freed from political interference.

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Nepal

Governing with the enemy

Jun 22nd 2006 | KATHMANDU
From The Economist print edition

But there are deep misgivings

THE process of creating peace between Nepal's fragile coalition government and Maoist rebels moves on apace. Less than two months after King Gyanendra was forced to return power to democratic politicians, the guerrilla leader, Prachanda, swept into Kathmandu for a day of talks at the prime minister's official residence. It was declared that the rebels will shortly join an interim government.

EPA

Hands clasped, fingers crossed

Observers and participants are caught between admiration and alarm. A series of declarations has been signed which commit both sides to peace, democracy and respect for human rights. A sequence has been laid out under which weapons and armies will be brought under some form of supervision, an interim government including the Maoists will be formed and elections held for a constituent assembly. Under the new constitution this body is to draw up, a thriving democracy will arise from the ashes of centuries of feudal exploitation and a decade of civil war. Or so goes the plan.

According to the Maoist leader, an interim government could be formed within a month, while the home minister predicts elections to the constituent assembly in under a year. Political will on both sides, and a broad consensus on the eventual outcome, provide grounds for optimism. But the agreements are short on detail.

The most urgent question is control of weapons, which has yet to be worked out between the two parties. Members of the government say no work has been done on the tricky question of how to keep the Maoist forces and the government army out of the way while the political process proceeds. After weeks of dallying, the two sides have yet to invite the UN to play a role in arms management, though both agree that help is needed. Until these arrangements are made, the peace process can go little further.

Ministers and leaders of the parties in the seven-member coalition complain that deals with the rebels are being stitched up by a small group of officials answering directly to the 84-year-old prime minister, Girija Koirala. Their methods have been slapdash. A committee tasked with preparing an interim constitution within 15 days is still waiting for its terms of reference. Eminent figures appointed to sit on other committees learned of their new jobs from the newspapers. Devendra Raj Pandey, an economist asked to chair an independent committee supervising disarmament, declined the position on the not unreasonable

ground that it was not his area of expertise.

The Maoists, at least, seem intent on joining the political mainstream. Like the political parties, they have an eye on the forthcoming elections and are avidly courting public favour. They score well for competence. At the joint press conference, televised live from the prime minister's residence, where the forthcoming interim government was announced, the proceedings were conducted in darkness until the rebels rigged up some light bulbs.

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Africa's economy

A glimmer of light at last?

Jun 22nd 2006 | JOHANNESBURG AND LUANDA
From The Economist print edition

Sub-Saharan economies are growing faster but are they really getting stronger? In two articles, we weigh the evidence

LUANDA is changing fast. A few years after the end of a devastating civil war, cranes are crowding the skyline of Angola's capital. Derelict buildings are being spruced up, smart new houses and office blocks are sprouting. Roads are being patched up, which may ease the city's maddening traffic jams. Last year Angola's economy grew by an estimated 15.5%, the fastest on the continent. But the rest of Africa has also been doing well: a recent report by the Organisation for Economic Co-operation and Development (OECD) estimates that Africa's economy grew by almost 5% last year, and is expected to do even better this year and next. At the World Economic Forum's annual get-together this month on Africa, the mood was unusually bullish. Is Africa, often dubbed the hopeless continent, finally taking off?

The perky figures are partly due to a global hunger for oil, minerals and other commodities, whetted by demand from China and India. Africa produces much of what China wants, boosting trade and fuelling interest in the continent. China's prime minister, Wen Jiabao, was on a tour of seven African countries this week. Soaring commodity prices (oil up by more than 90%, minerals and metals by about 70%, since 2000) have brought windfalls for oil-producers such as Angola and Nigeria. But the good economic showing is not limited to countries with oil or minerals. Ethiopia's economy grew by nearly 7% last year, Uganda's by close to 6%.

Rich countries have been more generous lately, with extra aid and debt relief, giving many struggling economies a breath of air. By the end of last year, 29 countries, 25 of them in Africa, had had their debt burden eased by close to $35 billion under the Heavily Indebted Poor Countries Initiative, launched in 1996 by the IMF and World Bank, to try to ensure that no poor country faced a debt burden it could not manage.

But Africa itself deserves credit for the upswing. Most of its economies have been better run: inflation, now averaging 8% a year, is at its lowest level in many countries since soon after independence 40-plus years ago; governments have been tightening the purse strings. With the striking exception of such dismal places as Côte d'Ivoire, Somalia and Zimbabwe, which now has the highest inflation in the world, politics in most African countries is better handled and violence less prevalent. Peace seems to be

breaking out in once-bloody Angola, Sierra Leone and Liberia, while the Democratic Republic of Congo, though still a mess, hopes to hold its first elections in decades next month.

Emboldened by this good news, foreign investors have again turned their gaze to the continent. Good returns from Africa's small stock exchanges have lured in fund managers. Foreign direct investment (FDI) has also gone up: $18 billion flowed into the region in 2004, three times the annual average rate in the 1990s.

For all this happy news, will the region weather the next global dip better than before? Sub-Saharan Africa has sometimes perked up a bit, only to slump again when commodity prices drop and the world economy falters. These boom-and-bust cycles have stymied real progress. John Page, the World Bank's economist for Africa, points out that real income per person in Africa rose by only 25% between 1960 and 2005; in East Asia, it went up no less than 34 times faster in the same period.

As a result, foreign enthusiasm for Africa has been fickle and aid has become patchier because rich countries do not trust African ones to spend their money wisely. Todd Moss of the Centre for Global Development, a Washington, DC, think-tank, says that investment funds specialising in Africa grew in the 1990s, when a new wind of change seemed to billow, only to vanish as the world economy lost speed. And though FDI has gone up, Africa attracts only 3% or so of the world's total, down from a peak of 6% in the mid-1970s.

With the striking exception of South Africa, which now contributes more than a third of sub-Saharan Africa's GDP, the region's total of 48 countries contains very few large, diverse or industrial economies. Most of them still depend hugely on rain-fed agriculture and on commodities. Those that have managed to build a textile industry, such as Lesotho and Mauritius, have suffered from Chinese competition and the end of the Multi-Fibre Agreement, which set quotas for exports from poor countries. The OECD argues that, though the oil and metal boom is a bonanza for African producers, it risks pushing the region back into a commodity corner, harming efforts to foster other parts of the economy.

For instance, Zambia's burgeoning tobacco and horticulture, which were encouraged in order to make the country rely less on copper, are struggling to cope with a sudden appreciation of the local currency, driven up by high copper prices and aid money. Oil and diamonds make up 60% of Angola's economy and almost all of its exports; manufacturing barely exists. The UN's Conference on Trade and Development reports that sub-Saharan Africa's exports of manufactured goods have risen by an average of just under 6% a year since 1980, less than half the figure for Asia's developing economies .

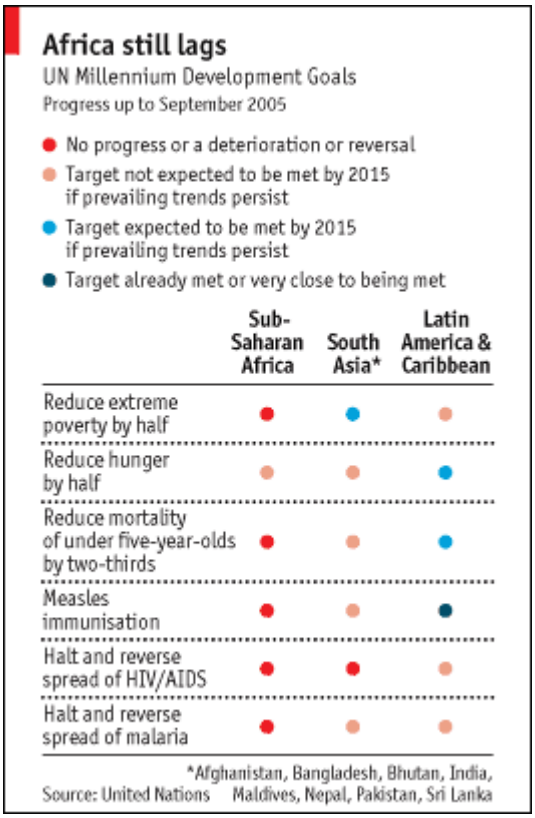
Nor have Africa's faster-growing economies done much yet for Africa's millions of poor; about half of sub-Saharan Africa's 750m-plus people still live on less than a dollar a day, a figure that has been pretty static since 1990, whereas in South Asia it dropped from 39% in 1990 to 30% in 2001 and is dropping further, while in eastern Asia (mainly China) it fell from 33% to 17% in the same period and is now falling faster still. Most foreign investment in Africa still goes to oilfields or mines, rather than factories, services or farming. Mineral riches provide governments with cash but do not create many jobs. Most people in Africa still work in the informal sector, while unemployment is rife. With a few exceptions in Africa, private business, especially the job-creating small and medium sort, is weak. Even South Africa, with its diverse economy, has failed to create jobs fast enough: at least a quarter of its people have no work.

The other huge check on growth is corruption. Some governments say they are trying to tackle it. Nigeria, whose economy has been devastated by the dishonesty of its politicians, has embarked on a high-profile anti-graft campaign. So has Zambia. But in the rankings index of Transparency International, a Berlin-based lobby, African countries are generally perceived as being the most corrupt.

Moreover, sub-Saharan Africa's economy is still missing the target of 7% annual growth set last year by the UN among its eight Millennium Development Goals for ending poverty by 2015. The island of Mauritius, hardly a mainstream African country, may be the region's only one to halve the proportion of its people living on less than $1 a day; only Ghana has so far met the target for hunger reduction; stemming the tide of HIV/AIDS by 2015 is still a dream. Only a handful of countries (the Cape Verde islands, Mauritius, Namibia and the Seychelles) look set to meet half the targets. Even Botswana, a shining

example of stability that has been spending its diamond wealth wisely, is likely to fail to meet most of them. The goals are ambitious, but other once very poor regions have been doing far better (see table).

Africa is probably more vulnerable than other regions to the vagaries of weather, aid and commodity prices. But it can do far more to educate its people and make them healthier, to nurture local businesses, to expand irrigation and avoid soil erosion, to build roads and lay on water and electricity. Above all, despite improvements here and there, it still sorely needs accountable and honest governments that people can freely eject when they fail. The current economic upturn, from a very low base, offers a rare chance for governments to build for the future while the going is a bit better. Hold your breath.


Africa still lags
UN Millennium Development Goals
Progress up to September 2005
No progress or a deterioration or reversal
Target not expected to be met by 2015 if prevailing trends persist
Target expected to be met by 2015 if prevailing trends persist
Target already met or very close to being met
Sub-Saharan Africa
South Asia*
Latin America & Caribbean
Reduce extreme poverty by half
Reduce hunger by half
Reduce mortality of under five-year-olds by two-thirds
Measles immunisation
Halt and reverse spread of HIV/AIDS
Halt and reverse spread of malaria
*Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
Source: United Nations

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Ghana

Black star tries to rise, again

Jun 22nd 2006 | ACCRA
From The Economist print edition

Fifty years after independence, Ghana looks back with mixed emotions

AT LEAST on paper, every week next year has already been carefully choreographed. Nelson Mandela, it is hoped, will make a speech. A military tattoo is promised, as well as a football match between Ghana's "Black Stars" and England, to "demonstrate the new relationship of cultured civility" between the "former colonial master and the colonised". Even Oprah Winfrey may beam her television chat show from the slave castle of Elmina. So it must be big: the 50th anniversary of Ghana's independence from Britain.

If even half of this comes off, it should be an exciting year for the west African country of 22m people. But then if anything unites Ghana's people, it is pride in being sub-Saharan Africa's first post-colonial country. Furthermore, the new nation's first leader, the ebullient Kwame Nkrumah, self-consciously set out to eradicate the vestiges of colonialism by charting a new course not only for Ghana but for the rest of Africa as well. He helped to found the Organisation of African Union and, at home, inspired by the apparent achievements of the Soviet Union, he spent millions of dollars building the dams and factories that he hoped would free his people from their abject dependence on Western capitalism.

Ghana's break with colonial rule also became a beacon of hope for many of America's civil-rights campaigners. Some of the movement's elder statesmen, such as William Du Bois, settled in Ghana out of solidarity with the new nation. Nkrumah was feted in Washington by President John Kennedy and taught to dance by Louis Armstrong's wife, Lucille. Thousands of Americans still make the pilgrimage back to the slave castles on the Cape Coast, whites to atone for their ancestors' sins, blacks to trace their roots.

Yet Ghanaians know there is just as much to regret as to celebrate in 2007. Just as Ghana blazed the trail for African independence, so it also became an example of all that has since gone wrong on the continent. Nkrumah himself became the prototype of a particular sort of African leader, setting out with noble ambitions, becoming increasingly authoritarian and corrupt, bankrupting the country on grandiose projects before being overthrown in a military coup in 1966. The country, at the time of independence one of Africa's richest, experienced a catastrophic fall in living standards. By the end of the 1990s, when the country came out of its tailspin, real GDP per person had only just recovered to the level achieved in the mid-1960s, when Ghana's figure was higher than South Korea's; today, at the official exchange rate, it is 35 times lower.

The man in charge of the celebrations, Charles Wereko-Brobby, concedes that more than half the post-independence years have "been lost". But the freedom to discuss those lost years also points to a renewed sense of optimism, based on a decade or so of economic recovery and the restoration of democracy.

Indeed, Ghana once again sees itself in the vanguard of a new African renaissance, but very different from the 1950s. This time it is all about good governance and macro-economic stability, so that African countries can prosper without constant bail-outs from the IMF. To this end, Ghana was the first to submit itself to the African Peer Review Mechanism, whereby for the first time African countries can judge each others' democratic standards.

The report on Ghana, just out, is frank about the continuing virus of corruption. But the fact that it has accepted this problem is a step forward. Emmanuel Gyimah-Boadi, head of the Centre for Democratic Development in Ghana, who was commissioned to do the work on corporate and political governance, says he was “impressed by the candour with which we were allowed to express ourselves.” He argues that the current period, in terms of political freedom, is “the best we have had so far”.

Political stability has been accompanied by a better economy, with inflation coming down to 10% and growth in recent years of between 4% and 6%. Ghana's achievements look all the better compared with its neighbours, Côte d'Ivoire, mired in strife, and Sierra Leone, Liberia and Guinea, trapped in crises for many years.

Still, for all its claims to lead the way in Africa again, Ghana still limps along, tethered to the ball and chain of its recent past. It remains one of Africa's poorest countries, with 35% of its people living on less than $1 a day. In its three northern provinces, between 70% and 90% of the people live in poverty; 43% are stunted by malnutrition and a further 33% are underweight.

Hobbled by decades of state control, business remains feeble. A full recovery will take many years. But the hope is that Ghana will continue on its slow upward curve, as Mr Wereko-Brobby puts it, by carrying on with its present “democratic dispensation rather than the short-term injections of messiahs”.

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International justice

Out of Africa, into The Hague

Jun 22nd 2006
From The Economist print edition

Charles Taylor's transfer to The Hague sends a warning to Africa's top villains

LIBERIA'S former president, one of Africa's most brutal warlords, is finally out of west Africa, the region he terrorised for 14 years. This week Charles Taylor was transferred from his jail in Freetown, capital of Sierra Leone, to The Hague to stand trial for war crimes and other heinous violations of international law carried out during Sierra Leone's 11-year civil war. Britain has agreed to allow him to serve any sentence in a British jail.

Few believed Mr Taylor would ever face justice. Indicted three years ago by the UN-backed Special Court for Sierra Leone, he fled to Nigeria after being toppled from power in Liberia in August 2003. There he lived in luxury until President Olusegun Obasanjo, under intense international pressure, agreed in March to extradite him to Liberia. Even then, he almost escaped, being caught trying to sneak over the Nigerian border en route, probably, to Libya. He was arrested and flown to Sierra Leone.

But then came a new setback. Though nine leaders of rebel and pro-government militias were already being tried by the Special Court, it was feared that Mr Taylor's presence would threaten stability and peace in the region, particularly in Liberia, where he still enjoys quite a bit of support. So the court asked the Dutch if they would host the trial in The Hague. They agreed on three conditions: that the UN Security Council authorise the transfer; that the International Criminal Court (ICC) or the international tribunal for ex-Yugoslavia, both in The Hague, provide a courtroom and holding cell; and that, whether convicted or not, Mr Taylor be sent to another country after his trial.

The ICC promptly agreed to provide the facilities. But despite much cajoling and arm-twisting, no country wanted to accept such a monster. Finally, on June 15th, Britain, the former colonial power in Sierra Leone, stepped into the breach. The next day, the UN Security Council unanimously passed the necessary resolution. The last obstacle to the trial of only the second former head of state ever to be charged with war crimes—after Slobodan Milosevic, the late Serbian president—had been removed.

Not everyone is happy. Transferring the trial from Freetown to The Hague will raise its cost hugely; who will pay the difference is unclear. Human-rights groups fret about providing Mr Taylor's victims with access to the hearings. Security is a worry. But the former Liberian president's trial may herald the end of impunity for Africa's “big men”, traditionally regarded as too powerful to punish. It also marks a step forward for international justice.

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Somalia

Now for the whole country

Jun 22nd 2006 | ADDIS ABABA AND NAIROBI
From The Economist print edition

The Islamists are growing in confidence

Get article background

AP

The UN's golden opportunity

IT WAS a good week for Somali Islamists, a bad one for those who would stop them. Emboldened by their capture of Mogadishu, Somalia's capital, militias loyal to the Islamic Courts Union pressed south towards Kenya and west towards Ethiopia. The struggle for a wrecked city has quickly become a battle for a nation. The latest town to fall was Jowhar, until recently the seat of Somalia's transitional government. From there, the Islamists may attack Baidoa, farther to the west, to which the feeble transitional government had been relocated (see map).

But Baidoa may not fall so easily. The head of the transitional government, Abdullahi Yusuf, not only has the support of the UN, but also 1,000-plus loyal gunmen. He also has the backing of Ethiopia, which loathes the Somali Islamists. Mr Yusuf says the Islamists do not represent most Somalis and that they could have taken Mogadishu only with the help of “extremists from around the world”, ie, al-Qaeda.

The Islamists, for their part, distrust Ethiopia almost as much as America. Sheikh Sharif Ahmed, the Islamists' youngish Libyan-educated leader, says that up to 500 Ethiopian troops entered Somalia last week, stopping not far from Baidoa. Ethiopia strongly denies this, but Ethiopian soldiers and spies may already have been on Somali soil for some time, trying to unsettle the Islamists.

But it is not clear that the Islamists want to topple the transitional government just yet. Given their wide popular support and heady ambition to build a new Somalia where Islamic law trumps clan loyalty, they may prefer to consolidate power with some kind of electoral mandate, perhaps as early as next year.

The Islamist victory has been well received in Mogadishu, at least for now. Residents are seeing the benefits: no warlords now throw up checkpoints, and the price of a minibus ride to Jowhar has halved. “It's a golden opportunity,” says a UN official. Aid agencies are particularly keen to get on with the Islamists, for instance to get more children into school. At present, in Mogadishu, only one in five gets any kind of schooling.

Still, Somalia is in flux. Some people worry that a full-blown civil war may break out between Islamists and the transitional government's backers. The Arab League is trying to mediate between the two sides. A more confrontational approach towards the Islamists, hinted at in private by the Ethiopians and the Americans, may inflame things and radicalise Muslims not just in Somalia but in Ethiopia and along Kenya's coast as well.

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Lebanon

Marking time nervously

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From The Economist print edition

Sectarian riddles still to be solved

LAST year the red and white colours of Lebanon's flag festooned its capital city. This year Beirut wears yellow and green, the colours of Brazil, the side most favoured to win the football World Cup.

It may seem a sign of normality that Lebanese passions have turned to sports rather than politics. Recent times have been turbulent, even for this fractious country that was consumed by civil war from 1975-1990. The assassination in February 2005 of Lebanon's main post-war figurehead, Rafik Hariri, sparked huge protests, forced the withdrawal of Syrian “peacekeeping” troops and ushered in a national unity government. It also raised hopes for freedom from Syrian meddling, greater prosperity, and an end to the murky dealing and sectarian squabbling that have scarred the country's politics.

Reuters

We're not sectarian, we back Brazil

But enthusiasm for soccer may be more a symptom of fatigue and disillusionment than of comfort with local affairs. Last spring's “cedar revolution” is now widely seen as an exhilarating event, the momentum of which faded as the country's sectarian leaders resumed their habits of sniping at each other, jockeying for power and using foreign alliances to bolster their position. “We're crazy about football because we need the distraction,” says a teacher. “But also because it's the only thing around here that isn't sectarian.”

Last autumn, Lebanese army troops mobilised to keep order when UN investigators released a progress report on their inquiry into Hariri's killing, so anxiously awaited were the results. The most recent report, issued earlier this month by Serge Brammertz, the Belgian judge who chairs the investigating commission, was met with scarcely a whisper. Posters around Beirut demanding The Truth are beginning to look tattered, even as electronic counters tick past 500 days since Hariri's death. The mounting cynicism is reinforced by the fact that 14 other bombings last year, which targeted Christian districts and leading critics of Syria, remain unresolved.

The anti-Syrian coalition led by the prime minister, Fouad Siniora, and made up of Sunni Muslims, with some Christians and Druze, easily won last year's elections. But Mr Siniora has struggled to bring in reforms. The continued hostility of Syria, whose territory surrounds most of Lebanon, has been one obstacle. Its president, Bashar Assad, has ignored Mr Siniora's repeated overtures, as well as a UN Security Council demand that Syria demarcate the border and extend normal diplomatic recognition. Mr Assad's prickliness has reinvigorated Syria's allies in Lebanon, and chilled the investment climate.

Mr Siniora's reforms have also been hamstrung by the complex constitutional formula that was hashed out to end the civil war and which effectively grants veto power to his opponents. Most humiliating was a failed bid, in March, to unseat President Emile Lahoud, whose tenure was extended under Syrian pressure in the months before Hariri's death. Mr Siniora could not muster the needed majority of three-quarters of MPs, due to a controversial alliance forged by Hizbullah, which is backed by Syria and Iran, with Michel Aoun, a Christian general who fought Syria during the civil war, was then exiled, and returned last year to head a populist, largely Christian party. It is widely seen as a vehicle for Mr Aoun's own ambitions for the presidency, a post that by Lebanese tradition is reserved for a Maronite Christian.

Mr Siniora's opponents have blocked progress on a bigger issue too: Hizbullah is the only Lebanese faction that has kept its weapons. Why? Some Lebanese agree that the Shia militia has earned the right, since it fought a guerrilla war that prompted Israel, six years ago, to end its two-decade-long occupation of south Lebanon. But most non-Shias mistrust Hizbullah, want state authority strengthened and fear provoking Israel. Besides, the UN Security Council has demanded specifically that all Lebanese factions disarm.

Hizbullah's odd position was underscored recently when, in response to a satire of its leader, Hassan Nasrallah, broadcast on a Christian-owned television network, Shia youths vented anger by smashing cars and shops in Druze and Christian districts of Beirut. Army troops, and calls for calm by Hizbullah itself, quickly restored order. But tension remains high, amid recriminations that have seen Mr Aoun's popularity wane, on account of what many in his core Christian constituency regard as his unnatural alliance with the pro-Syrian factions.

Yet, as often happens in this country of overlapping sects (officially 18 of them), the whiff of potential violence has focused minds. Mr Siniora, a tough former banker, says he will not be shaken from the path of reform. Last year's tumult raised expectations too high, he contends, and this has obscured real achievements: civic freedom is stronger, the economy is growing, governance has improved (thanks, he says, to basing state appointments on merit rather than sect), the separation of powers is better enforced and electoral reforms are at last under way.

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German history

Still haunted by a communist spectre

Jun 22nd 2006 | BERLIN
From The Economist print edition

Germany's relationship with the recent past is not as happy as its present, flag-waving mood would suggest

Daniel & Leo Fuchs

WITH the nation's black, red and gold banner being brandished joyfully, but innocently, by countless football fans who are delighted to be hosting the World Cup, Germany gives the impression of a country which has finally laid to rest the ghosts of its past. In fact, real optimists might say that a new, angst-free patriotism is celebrating the achievements of a united, democratic state.

But perhaps they are speaking too soon. For all the huge effort modern Germany has made to come to terms with the enormities of the Nazi era, a more recent moment in the Germans' collective memory is still causing arguments—and with a review of “commemoration” policy due in the autumn, those arguments are likely to grow louder. People are still unsure how to remember the 40-year life of the German Democratic Republic (GDR), which ended when communism collapsed in 1989.

To get a glimpse of how sharp this question still is, try visiting a grim building in east Berlin—the Hohenschönhausen jail which was once used by the Stasi, the communist state's secret police. Getting there is hard, not least because if you ask one of the elderly men who live nearby, he may maliciously misdirect you. Many former officers of the East German secret police still have homes in the neighbourhood. But inside, ex-prisoners lead the tours. They start in a *gulag*-type basement prison, closed in the early 1950s, and end in the somewhat more civilised interrogation rooms used by the Stasi until the fall of the Berlin Wall.

Recently, these two groups—Stasi veterans and their victims—tangled at a public meeting that nearly ended in a brawl. The local city council, controlled by the PDS party of former communists, had organised a hearing about plans to erect commemorative information plaques around the prison compound. Not only did former inmates show up, but so did 200 ex-Stasi officers, who protested loudly when the facility was called a “place of terror”. One ex-head of the prison insisted that everyone held there had been treated humanely.

“We are in the middle of a struggle over how to interpret the GDR,” says Marianne Birthler, an ex-dissident. She now heads the federal body set up in 1990 to oversee and catalogue the Stasi files—a vast collection of personal data on East German citizens gathered by the Stasi's 90,000 employees and the 600,000 people who served at various times as informants.

The Berlin government has approved a plan to link the few remaining segments of the Wall, including Checkpoint Charlie which was the main intersection between the city's eastern and western zones. Even this proposal is controversial: some think there should be a more obvious, central memorial to victims of the Wall.

In some ways, remembering four decades of communist rule should be easier than dealing with the demons of Nazism. After all, the communist regime was confined to the country's eastern part, and its wrongdoing still fell short of the Nazis' ghastly crimes.

But, in practice, efforts to commemorate the Nazi variety of totalitarianism can easily become entangled in a messy way with the legacy of communism. Take the Sachsenhausen concentration camp, where in Soviet times the Russians interned both former Nazis and their own political prisoners; it is hardly possible to display the history of that grisly place without acknowledging the victims of Stalinism as well as fascism.

Hubertus Knabe, who runs the Hohenschönhausen memorial, says there was less of a clean break with communism 16 years ago than there was with Nazism in 1945. In 1990, he notes, there was no move to abolish the communist party; victims of communism were poorly compensated, and most of the old regime's darkest figures paid no price for their misdeeds. Others, defending the record, point out that the huge organisation devoted to processing the Stasi archives has served as a model in other countries, including Iraq.

In any case, by the mid-1990s, people seemed to be losing interest in East Germany. In the west, the public had ceased to pay attention—except when some prominent figure was exposed as a Stasi collaborator. But in the east, not least because of the economic problems following unification, people started looking at the communist regime as “not all bad”—and television shows played up to a rosy-eyed view of the past, known as Ostalgia.

In this climate, some ex-Stasi leaders have apparently been emboldened to think that the time is ripe for rewriting history. Hence the recent publication of several books playing down the misdeeds of the Stasi. Politicians have joined the fray. “Both sides have responsibility” for the people who were killed while trying to flee westwards over the Wall—that was the weird claim made recently by Hans Modrow, the GDR's last communist leader who is now honorary chairman of the ex-communist PDS. That party still gets a quarter of the eastern German vote.

Things would be less worrying if eastern Germany's network of commemorative institutions were in better shape. But it is still having teething problems. Many of its memorials are underfinanced, and their displays are stronger on emotion than on accuracy. And there is much bickering about the future, especially that of the Stasi archive. With a whopping 2,200 employees, it has become a giant memorial of the peaceful revolution of 1989.

Preventing a solution to such problems are some strong personalities, institutional interests and ideological arguments. Mr Knabe and Ms Birthler have often clashed. He is a historian from western Germany whom experience has turned into a staunch anti-communist; she is one of the few former eastern dissidents who has built a successful political career. He wants the bureaucracy which now looks after the Stasi archive to be phased out, so money can be spent on other memorials. She says her administration needs at least another decade to fulfil its original mission. He believes that communism, like fascism, is best commemorated by letting victims speak; she wants her researchers to go on studying the communist record.

Bridging such differences was the goal of a state commission led by Martin Sabrow, director of the Centre for Research on Contemporary History in Potsdam. His findings proved controversial. They included keeping the Stasi archive for some time and linking it somehow with Hohenschönhausen and other Stasi memorials. He also suggested creating a GDR museum to shed more light on life under communism and recall its subtle mechanisms of control. Critics fear the former move will create an over-mighty commemoration monopoly—while the museum might be too soft on the GDR.

But at the end of these tortuous arguments there may be a glimmer of hope. If Germans can decide how exactly to remember communism, it could set a good precedent for Europe as a whole, where the upheavals of the 20th century have yet to be fully digested.

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Turkey

Wife of the nation's father

Jun 22nd 2006 | ANKARA
From The Economist print edition

A new book on an old taboo

NEARLY seven decades after his death, Kemal Ataturk, the westernising founder of modern Turkey, remains a near-deity for millions of Turks. His steely-grey eyes stare out of portraits hung in every school and government office; his sayings are etched on monuments and even mountains. Insulting Ataturk can bring up to three years in jail. Changing that is one of many tough requirements on Turkey's road to the European Union.

An encouraging if modest step comes with a new biography of Ataturk's wife, Latife Ussaki, by a veteran journalist, Ipek Calislar. Ever since Ataturk divorced her in 1925, Turks have been fed images of a shrill, bossy and ugly woman, who lacked the will and wiles to manage her heroic husband and was therefore to blame for the collapse of their stormy two-year marriage. Mrs Calislar's diligent research and testimony from friends and family paints a different picture of the plucky, unveiled 23-year-old, who won the heart of the nation's ruler.

The daughter of a rich merchant from Izmir, who had studied law in Europe, Latife played a bigger role than has ever been acknowledged in helping to shape Ataturk's vision of a modern Turkish state. A vocal feminist, she pushed hard for the laws that enfranchised women in Turkey long before France or Switzerland. Ataturk was so proud of Latife that he would tour with his unveiled bride throughout Anatolia, touting her as a role model for Turkish women. So what went wrong?

Latife never told her side of the story, mainly out of loyalty to Ataturk but also out of fear. The shroud of mystery was set to be unveiled when a 25-year-old court order banning the publication of her diaries and letters kept in the vaults of Ankara's Turkish History Foundation expired last year. But the family refused to publish the papers so as to protect Ataturk's image.

One issue may have been Ataturk's nightly drinking sessions with his chums, which were widely known but rarely discussed. They clearly played a part in the break-up. So did the sudden appearance of Fikriye, Ataturk's former mistress, who shot herself in the grounds of the presidential palace. But Mrs Calislar hints at another reason: for all his westernising zeal, Ataturk was ultimately unable to cope with a wife who insisted on being his equal. “He was”, notes Mrs Calislar, “a man, after all.”

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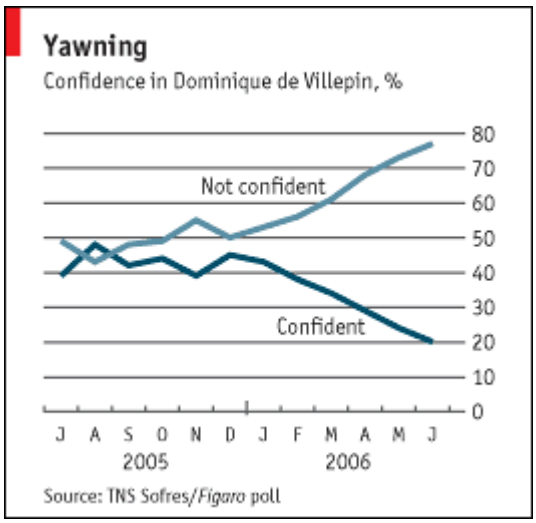
French industrial policy

A magician loses his touch

Jun 22nd 2006 | PARIS
From The Economist print edition

The limits of political legerdemain



WHEN Dominique de Villepin posed for the cameras in February, flanked by two French energy bosses who had agreed to merge their companies, France's prime minister must have felt he had pulled off a spectacular conjuring trick. The two firms, Gaz de France (GDF), the state-controlled gas utility, and Suez, a private water and power company, would combine to create a French energy giant in the name of "economic patriotism"—and, in doing so, pre-empt a possible rival Italian bid for Suez. Although the Italians were incensed, it looked like a populist winner at home: appealing to the French taste for national champions, and pandering to their sour protectionist mood.

Just four months later, Mr de Villepin has been forced to postpone the project in the face of a growing parliamentary rebellion in his own party. By putting off a parliamentary debate until September, to gain more time to try to persuade his pesky deputies, he in effect admitted this week that he lacked a majority behind him—despite his party's dominance of the National Assembly. Although the two companies tried to sound upbeat about the timetable, the outcome remains uncertain. This week the European Commission opened an investigation on competition grounds. The Italians may now rethink their hand. And Suez's boss, Gérard Mestrallet, told a French newspaper that he would "seek other options", if matters were not resolved conclusively before the summer.

Why has Mr de Villepin's concoction proved so volatile? First, for the merger to go ahead, the state will have to reduce its stake in GDF from 80% to 34%; hence the need for parliamentary approval. Privatisation of the gas utility is not only unpopular among voters, fearful that their gas bills will soar. It also breaks a government promise not to let the state's share fall below 70%. "There will be no privatisation of GDF," declared Nicolas Sarkozy, then finance minister, two years ago, as he prepared the company for partial flotation. French governments have a habit of making such promises, only to ignore them later; but rarely do they do so this quickly.

The second difficulty is Mr de Villepin himself. When he devised the merger, he was still enjoying a honeymoon, with MPs and the electorate. Since then, however, his credibility has been battered. Mass street protests and university sit-ins over his planned labour reform prompted President Jacques Chirac to make him withdraw it. There are ongoing questions over his role in the "Clearstream affair", in which Mr Sarkozy and other leading politicians ended up on a forged list of foreign bank accounts. Mr de Villepin this week sued three writers for libel over the affair, although he has admitted he did ask a secret service agent to investigate the list.

The prime minister is also under pressure over the mess at the European Aeronautic Defence and Space Company (EADS, see article), in which the French state holds a stake. France's financial regulator is now investigating the share options exercised by Noël Forgeard, the company's co-boss, not long before its share price plunged on news of fresh delays at its Airbus subsidiary. This week, a parliamentary session had to be suspended after extraordinary scenes of chaos broke out over the matter. François Hollande, leader of the opposition Socialists, had asked whether the prime minister still backed Mr Forgeard. Mr de Villepin replied by accusing Mr Hollande of "cowardice, cowardice!"—and he had to be protected by stewards as furious deputies surged towards him.

In short, the shambolic uncertainty about the energy merger is symptomatic of a broader problem of political authority. In June, Mr de Villepin's poll ratings sank to 20%, according to TNS-Sofres, a polling group, down four points from May. His own deputies, fearful for their jobs at next year's parliamentary election, do not want another show-down with public opinion. Many have defected to Mr Sarkozy, Mr de Villepin's chief rival on the right, whose popularity seems to have withstood the current troubles. This week, some could conceal their exasperation no longer. “The prime minister must go,” said Christine Boutin, one of his own deputies

Whether matters will be any calmer after the summer remains to be seen. *La rentrée* in France, when deputies return from their holidays, is traditionally heated. Moreover, there is a broader mood of popular disillusion. The EADS fiasco has exacerbated a widespread feeling of popular disgust over a close-knit political-industrial elite, which appears to organise affairs to suit itself and to embrace the rewards of capitalism without accepting risks. Nobody is suggesting that there was a conspiracy; but the fact that so many of the players come from the same sort of elite post-graduate schools hardly helps to allay suspicions. It may be that parliamentarians, sensing this mood in their constituencies during their break, will return even less willing to help Mr de Villepin and his government make a Houdini-like escape from its travails.

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Italy and America

Clouds over a friendship

Jun 22nd 2006 | ROME
From The Economist print edition

Transatlantic ties aren't easy—in Italy or even (see article) in central Europe

ROMANO PRODI'S new centre-left government probably owes something of its recent electoral success to a sense that his predecessor as prime minister, Silvio Berlusconi, had been a little too keen to please the Bush administration. But Mr Prodi has tried hard to avoid upsetting the United States in the way Spain's Socialists did when they took power from pro-American conservatives two years ago.

The Italians want to get their soldiers out of Iraq, as did the Spanish. And Mr Prodi, a former president of the European Commission, intends laying more emphasis on Europe, and less on transatlantic ties, than did the last government.

But the manifesto that brought him to power in April stressed that withdrawal of the 2,600-strong Italian contingent would be carried out gradually and in agreement with the Iraqi government and Italy's allies. About 1,000 soldiers are due to leave this month as part of a full withdrawal, probably before winter. That is hardly faster than Mr Berlusconi had pledged.

However, as happened under the previous government, awkward realities keep intruding into Italian-American relations. This week, an Italian prosecutor asked for an American soldier to be tried, in his absence if necessary, for the shooting dead last year of an Italian intelligence officer in Baghdad. Nicola Calipari died at an American checkpoint as he was escorting a newly-freed Italian hostage to the airport. His death stirred outrage in Italy, and was seen as having prompted Mr Berlusconi into promising withdrawal. The Italian and American governments failed to agree on what happened and issued separate reports on the incident. American investigators claimed (and Italian officials denied) that the car was travelling fast enough to alarm the soldiers. Neither side implied that the killing was deliberate.

Italian law says prosecutors, who are independent of the executive, must conduct a separate investigation if there is evidence of an offence having been committed against an Italian citizen. But it also says foreigners cannot be tried in their absence for a killing abroad, unless it was political. That offered the prosecutor a way out. He chose not to take it. In his indictment request, he said killing Calipari, a senior official, had damaged Italy's interests abroad and was a “political crime”.

A judge must now decide whether to order a trial. In the meantime, the Calipari case will not be the only running sore in relations between Washington and Rome.

Another Italian prosecutor is pursuing an investigation into the alleged CIA kidnapping of an Egyptian cleric and terrorist suspect in Milan in 2003, and plans to seek indictments for 22 presumed American intelligence agents next month. His request for their extradition was shelved by the previous government, but the prosecutor has said he will resubmit it to the new one. That would present Mr Prodi with a hugely tricky decision, not least because there may be political capital to be made from the case. Earlier this month, a Swiss lawmaker who conducted an investigation into CIA abductions and detentions for the Council of Europe claimed Mr Berlusconi's government, which has denied involvement, played a “not marginal” role in the Milan kidnapping.

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America and central Europe

Stamped by history

Jun 22nd 2006 | TALLINN
From The Economist print edition

Post-communist countries like America. Shame they can't travel there

IT WAS to America that the captive nations of central and eastern Europe once looked for succour. And when they gained freedom, it was America that pushed to make them safe, by bringing them in to NATO. Those memories are still strong. George Bush's visit to Hungary this week, marking the 50th anniversary of the failed anti-Soviet uprising there, would have met similar warmth in any of the eight ex-communist members of the European Union. In parts of "old Europe", by contrast, the welcome would have been cool or outright hostile.

Friends in need
Troops deployed in:

Country	Iraq	Afghanistan
Bulgaria	0*	66
Czech Republic	96	100
Estonia	35	80
Hungary	0†	170
Latvia	122	29
Lithuania	120	115
Poland	550	105
Romania	960‡	492
Slovakia	105	17
Slovenia	4	49

*Withdrawn 2006 †Withdrawn 2004
‡Includes 130 troops performing UN duties
Sources: Embassies; globalsecurity.org; NATO; press reports

Most of Europe's new democracies still believe that, in a tight spot, only America can guarantee their security. That is particularly true for those edgy about Russia: Poland and the Baltic states. They were thrilled to hear Mr Bush's vice-president, Dick Cheney, denounce Russia's energy imperialism in Vilnius last month.

But it is not just Russia. Hungary, for example, keeps an uneasy eye on next-door Serbia, home to an unhappy Hungarian minority. If extremists took power in Serbia, says George Schöpflin, a Hungarian member of the European Parliament, only America could protect Hungary.

The post-communist countries are useful American allies. They supported the war in Iraq both diplomatically, and (see table) with troops on the ground. The numbers, Poland aside, may look small. But for the countries involved, they are large. Addressing Congress earlier this month, Vaira Vike-Freiberga, Latvia's president, said that her country's contribution to operations in Iraq, Afghanistan and the western Balkans was "proportionately one of the largest in the world".

America tends to underestimate the political cost of this. One post-communist minister recalls trying vainly to convince his American counterparts that staying in Iraq was rather unpopular at home. American military aid to the new democracies has been stingy. And the cost and hassle of America's visa policies grate harshly. "Estonians don't understand why their sons are dying in Iraq for democracy and freedom, and yet their families can't get visas for the United States," says Toomas Hendrik Ilves, a former foreign minister.

So far, only Slovenia's 1.9m people have visa-free travel to America. Poland and the Czech Republic have lobbied hard; so did Mrs Vike-Freiberga on her recent trip. But there is little sign of change. In most post-communist countries, each visa application costs a non-refundable $100—a week's wages. In Romania, even the appointment costs $11, for seven minutes of telephone time.

That makes it hard for pro-American politicians to thrive. Mikulas Dzurinda, the outgoing Slovak prime minister, was an ardent Atlanticist. He was well-received during visits to Washington, but brought little home to show for it. The victors in last weekend's elections were anti-American leftist and nationalist parties.

Who's my friend?

Such wobbles barely trouble American policy-makers. East European governments of all stripes usually end up trying to get on well with America. The Hungarian government that welcomed Mr Bush is a coalition of ex-communists and liberals, but it has been a solid ally in both Iraq and Afghanistan. Poland, under the presidency of ex-communist Aleksander Kwasniewski, helped America, notably in places such as Ukraine. The country's current conservative rulers, though explicitly pro-American, are shackled by their incompetence in foreign policy.

Atlanticism is a harder and riskier sell than it used to be. The public increasingly thinks Iraq was bungled. Many politicians would like to say to America: “If you want us to be your allies in places such as Iraq, then do things better,” says Kadri Liik, a Tallinn-based foreign-policy analyst. Polish opinion has swung sharply against a clumsily presented new American anti-missile radar base.

The furore over rendition has been damaging too. Although all the governments concerned—in Poland and elsewhere—deny that they have provided secret bases for torturing, or transporting, terrorists, solid suspicions remain.

The hope now is that America will open large bases of a more conventional kind, with the attendant jobs and contracts. In April America leased three bases in Bulgaria, which are expected to bring several thousand troops to build logistics for larger forces heading east and south.

In Romania, the port of Constanta has been used for NATO exercises and is likely to become an American base by year-end. President Traian Basescu has energetically pushed the idea of using his country to open the Black Sea region to American and European influence.

So long as the European Union's own foreign policy looks muddled and weak, the ex-captive nations are likely to look mostly to America for security. And loyal friends in useful places are welcome, even if they are small, weak and tiresomely keen on actually visiting their big ally.

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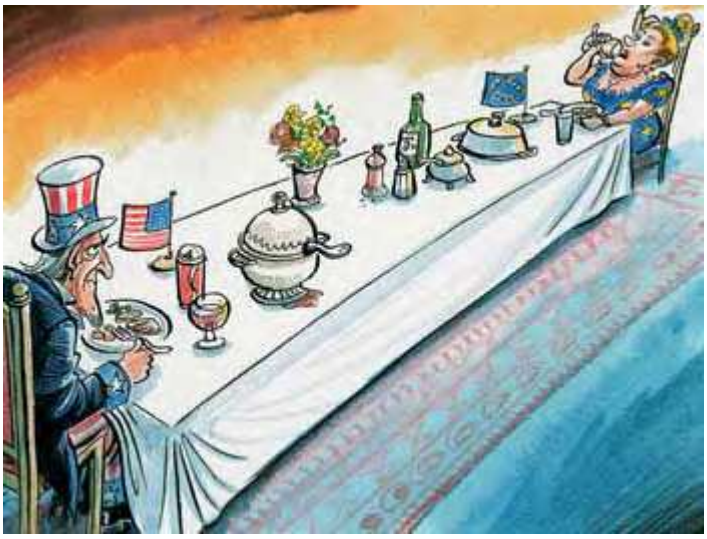
Charlemagne

An old couple still rubs along

Jun 22nd 2006
From The Economist print edition

Europe and America can't save the world together, but they can do useful things



FIFTEEN years after the cold war ended, the transatlantic alliance is often said not to be realising its potential. America and Europe must act in step to do great things for the world. This week's summit between the United States and the European Union in Vienna fitted the pattern: “The world needs us to work together,” declared George Bush, grandly. But there were also more realistic signals: Europeans and Americans may be making their venerable partnership more modest, less messianic—and possibly more effective.

Mr Bush left the Hapsburg capital a bit like a ridiculed rich uncle at a family reunion, welcomed insincerely to his face and belittled behind his back. Impossible though it sounds, America's reputation has deteriorated with the European public in the year since the president last visited the EU, vowing to mend fences. And there are only fitful signs of renewed amity among diplomats. American foreign-policy types have gone out of their way to be nice about Europeans (“America supports a strong Europe because we need a strong partner,” said the president's national security adviser recently), but most EU members have not returned the favour.

At the summit, the EU complained about America's human-rights record and about Guantánamo, about American lectures on democracy and democracy-building. Don't expect us to make the next offer to save the Doha trade round, said the president of the European Commission, José Manuel Barroso: it's up to you.

How undiplomatic. Some Europeans explain the mismatch— America is all smiles, Europe all frowns—by saying America needs Europe more than Europe needs America (it has mistakes to atone for, they say, so it must be a supplicant, while Europe can afford to be brusque). Knowing the Bush administration, that is not a very plausible argument. Anyway, there is another way of looking at things: Europeans are being dragged kicking and screaming towards a new partnership in world affairs.

That is primarily because both sides are facing similar economic challenges from emerging economies—and are reacting in similar (sometimes similarly self-destructive) ways. For Europeans, last summer's bra-and-textile dispute with China was a turning point. Despite its comic-opera quality, it was the first

time China's economic impact on Europe became such an acute matter of public concern—as it has been in America for years. Last winter's move by Russia's Gazprom to turn the gas down during its dispute with Ukraine gave Europeans a harsh experience of energy being used as a tool of power politics. That, too, is something America understands perfectly well.

Meanwhile, under pressure from their business lobbies, Europe and America have also emerged as the two places with the biggest stake in setting global regulatory standards. At the summit they agreed to push for stricter enforcement of intellectual-property rights in third countries. They will not always see eye to eye. America, for example, is furious about a recent EU law on the chemicals industry in Europe which has consequences for the whole world because of Europe's importance as a market. Depressingly, the two seem to be making little headway in the Doha trade round, either between themselves or with the Group of 20 largest developing countries. But Brussels and Washington, DC, remain the twin regulators of the global economy; that means they have as big an interest in co-operating to modernise the rules as in competing to impose their own standards.

What about old-fashioned diplomacy? Despite public differences, each side thinks the other is becoming more like itself. Americans say Europeans are more aware of the advantages of firmness: hence their refusal to fund Palestine's Hamas government directly. Europeans think a chastened America is realising the advantages of soft power and diplomacy. One example of working together is Iran—arguably the world's biggest foreign policy challenge. Europe (or, to be more precise, Britain, France and Germany) and America have played “good cop” and “bad cop” in pressing Iran to forgo its nuclear programme. So far, they have managed to ratchet up pressure on the Iranians without cracking their own alliance, although it has not been easy.

Everyone knows, of course, that their co-operation will last only as long as diplomacy does—if any question arises of using force against Iran, the transatlantic chasm will open up again. And there are other issues where Americans remain the ones from Mars. The Bush administration wanted NATO to take the first steps towards letting Ukraine and Georgia into the alliance; Europeans said no. Vice-president Dick Cheney excoriated Vladimir Putin for his anti-democratic impulses in Russia and Russia's “near abroad”; Europeans say they have no choice but to keep in with the Kremlin which supplies two-thirds of their gas.

Still worth the candle

But that does not mean transatlantic co-operation is a sham. The old partners have to accept that they can no longer set all the rules of the game—that is, make agreements that everyone else must abide by. But as the world's largest trading powers, Europe and America can still do a lot about economic regulation; along with the G20, they can set the world's trading rules—if (a big if) they can agree. And in traditional foreign policy, they can at least co-operate in a reactive way; the two can respond together to Iran's nuclear programme, or Hamas's election victory. This is not trivial; it helps to build credibility and momentum, which matters at lot in diplomacy.

Because of the cold war, the old partnership is still held to an impossible standard: when Europe and America co-operate, “we can do our best to make the world a better place,” said Mr Barroso at the summit. In fact, with China, India and Russia as global powers, the world no longer works that way. But where Europe and America do co-operate, they can at least make themselves better off—which is hardly to be sneezed at.

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About sponsorship

Prisons

The clang of the gate

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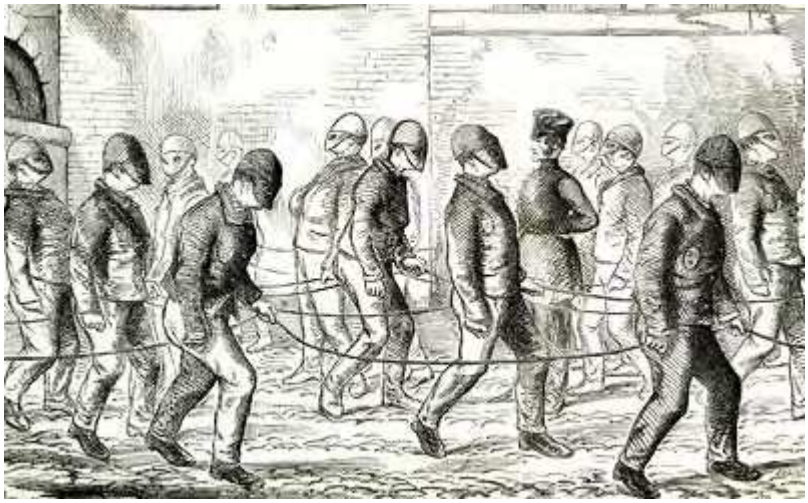
The British government has been accused of both stuffing prisons and letting too many convicts out. Oddly, both accusations are true

The Bridgeman Art Library



Get article background

BRITAIN'S prisons are full. Tiny cells, some of them 150 years old, have already been doubled up to house two inmates. Almost every day, governors are told to make space for a new batch of prisoners, who often arrive in the evening and may be moved again as soon as the following day. This coming and going, which governors call “churn”, is disruptive and disorientating. It can also be deadly. “If I can get through a week without somebody killing themselves, that's a pretty good week,” says one prison governor.

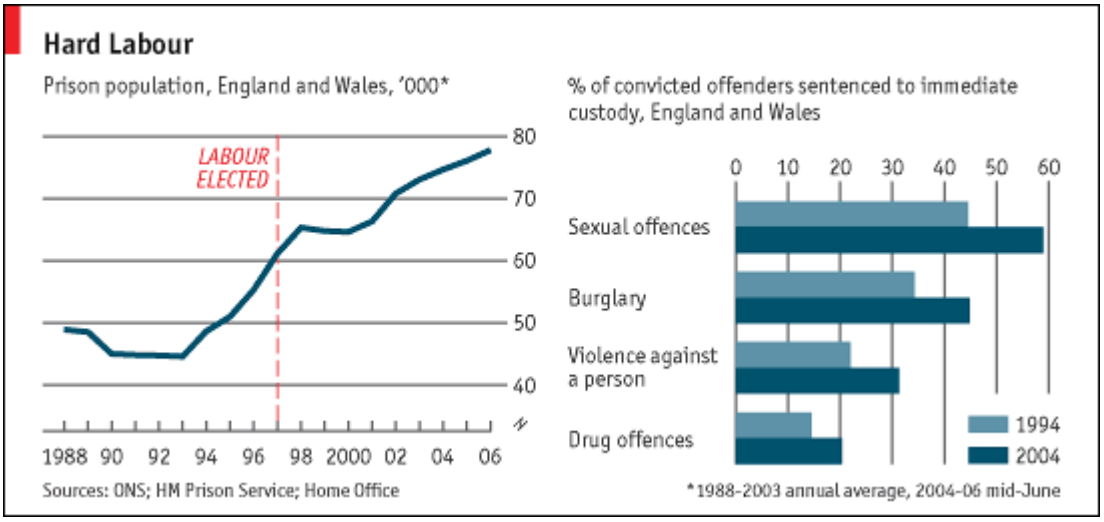
Anne Owers, the prisons inspector, has sounded the alarm. With 77,800 inmates, the prisons of England and Wales are now just 1,700 short of their “useable operational capacity”. When that point is reached, they simply will not be able to take any more people without resorting to such measures as mixing men and women prisoners. John Reid, the home secretary, is expected to announce next month how he plans to reduce pressure on the system. But one option has already been ruled out. Mr Reid, in common with the prime minister, wants many offenders to be given stiffer sentences.

He said so last week, following the trial of Craig Sweeney, who sexually assaulted a three-year-old girl before packing her into his car and fleeing from the police. Mr Sweeney had only just been released early from custody when he committed his crime (he had previously been jailed for assaulting a six-year-old). This time he was sentenced to life imprisonment, but the judge in his case admitted that, after taking account of his guilty plea and days spent awaiting trial, he might be paroled in little more than five years. Britain's tabloid newspapers were furious; so was Mr Reid, who called the tariff “unduly lenient”. A prompt review of sentencing is promised.

Mud of all kinds sticks to the Home Office these days. But it is quite something for a department to be accused of having a penal policy that is both too tough and too lenient. The accusations seem contradictory. How can it be that Britain's prisons are full and that monsters like Mr Sweeney are freed to walk the streets?

The reason the prisons are stuffed is that more offenders are being sent to jail for longer. The trend can be seen both in the magistrates' courts, which hear most cases, and in the Crown Court, which dishes out the longest prison terms. English and Welsh magistrates have lost faith in fines, which they used to favour (in Scotland, which has a different legal system, they still do). Despite high re-offending rates among ex-convicts, many believe that what one calls “the clang of the prison gate” is the best deterrent. In 1994 magistrates sentenced fewer than 5% of shoplifters to prison; by 2004 they were putting away four times as many.

Judges have been influenced by an act passed in 2000, which laid down tough minimum sentences for such heavy types as second-time violent offenders and third-time burglars. Because judges tend to have a strong sense of the relative seriousness of offences, and sentence according to this framework, the act had the effect of raising penalties all round. The average Crown Court sentence for burglary has risen from 21 months to 25 months since 2000; for robbers, it has increased by three months. Tacking a month onto the average sentence length adds around 1,800 to the prison population.



Overcrowding could have been lessened by building more prisons. But the government has added capacity gradually—more slowly than the prison population has risen, and much more slowly than the Conservative Party wants. Instead, it has expanded alternatives to prison. More offenders are now given community sentences. More ex-convicts are on parole, often wearing electronic tags and subject to curfews. Thanks to a change in the law, many of those sentenced since April 2005 will be released halfway through their sentences (not two-thirds of the way through, as before) but they will be watched by probation officers for longer.

Underpinning such reforms is a great weight of evidence that offenders, particularly young thieves, benefit little from prison. But the rise of community punishment has had two unfortunate effects. First, many ex-convicts have been returned to prison for breaching the terms of their licences—sometimes for nothing more serious than failing to turn up to appointments. In some prisons, one in nine inmates falls into this category. Recalled prisoners do not just swell the prison population and thereby subvert the point of early-release schemes; since many are angry and disillusioned, they also change its mix for the worse. And the second problem, of course, is that some of those who are released early commit horrific crimes.

Going straight

The overcrowding of Britain's prisons is more than a symptom of tougher criminal-justice policies. It has also become an implicit spur to consider alternatives. Two years ago, this became explicit in a proposal to make judges and magistrates take account of prison capacity when passing sentence. The measure was dropped, but the message remains: prison is a bad option; think of something else.

Prisons are indeed bad, and in some ways are becoming worse. Although much better managed than in the past, churn means that jobs are interrupted and relationships broken. On occasion, partners and children turn up at one Victorian edifice, only to be told that the person they came to visit has been moved 50 miles to another one. This is not just a problem for the prisoners. John Staples, a former prison governor, says convicts who keep in touch with their families are far more likely to go straight on

release. By straining such bonds, the prison system is storing up trouble for the future.

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About sponsorship

London's art market

Suite Anglaise

Jun 22nd 2006
From The Economist print edition

Why London's art business is fretting about its position in the world

AFP

Life after death

SALE season at London's auction houses is under way. On June 19th at a packed Sotheby's, £89m-($164m) worth of Impressionist and modern art was bought by telephones, by waving plastic lollipops or just by pairs of expressive eyebrows. The following evening, works in the same category fetched £87m at Christie's. There was nothing to match the £73m that, according to the *New York Times*, was paid last week by a New York gallery for a single portrait by Gustav Klimt (which, appropriately enough, looks as if it were hammered out of a sheet of gold). But a portrait by Amedeo Modigliani of his lover, who threw herself out of a window days after the artist's death, went for a more than respectable £16.4m.

Despite this success, there are worries in London about whether the city can retain its slot as number two, behind New York, in the fine-art world. London's position in this global market depends on three things: a concentration of wealth and of the people who look after it, plenty of artists and galleries to shape taste, and a long and distinguished history as a centre for art exchange. But it has also been contingent on happenstance. Iain Robertson, who runs the art-business programme at Sotheby's, reckons the city's pre-eminence in Old Master paintings is partly thanks to two big sales after the French Revolution, when lots of European masterpieces disappeared into Britain's grand houses. These have been drip-fed into the market ever since, keeping the experts and the point of sale in London.

But markets, as auction houses and gallery owners like to point out, can up and leave. Paris's share of the modern-art market has shrivelled since the 1960s. London is thought to have missed out on the Avant-Garde market in the 1940s because of a combination of currency controls and closed minds: Alfred Munnings, the president of the Royal Academy of Arts in 1944-49, was famous for his dislike of the new. Equally, markets can emerge where wealth does too. Hong Kong's is growing fast: the 2003-04 season saw an increase in turnover there of 139% compared with the previous year, according to Hislop's Art Sales Index.

Doubt as to whether London's current robust health is likely to decline stems from worry about the new *droit de suite*, or artist's resale right, a European Union law that took effect in February. Under the rule, which has existed for some time in France and in California, a work by a living artist attracts a tax equal to 4% of the sale price each time it changes hands. The proceeds go to the artist or his family. Sales for less than €1,000 (£680) are exempt, and the tax tapers to 0.25% as prices rise toward Klimt territory—it is capped at €12,500 for a sculpture or painting worth €500,000 or more. At present the *droit de suite* applies only to contemporary art, but by 2012 it will be extended to any work sold within 70 years of an artist's death.

So far, the effect on London's market has been negligible. But the system is still very new, and suspicion lingers. “At first it was hard to convince dealers that this wasn't some internet scam,” says Tania Spriggens, a spokesman for the Design and Artists Copyright Society, which is responsible for collecting the cash for artists. The society will send out its first cheques next month.

Some artists (and lots of dealers) are not thrilled about the new tax. A group called Artists Against *Droit de Suite*, which includes heavyweights such as David Hockney, was formed to lobby against the law. Now

the Society of London Art Dealers and the British Art Market Federation (BAMF) have joined the fray. The tax, they argue, will put off buyers and sellers, especially in mid-market contemporary art (works around the £50,000-£100,000 mark). Since art is traded globally, they may decide to do business in Switzerland or New York instead. “People aren't going to flock to us because we're nice chaps,” says Anthony Browne of the BAMF. So far, they still have other reasons.

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Gordon Brown v David Cameron

A glimpse of the future

Jun 22nd 2006
From The Economist print edition

The chancellor and Tory leader position themselves for combat

GORDON BROWN and David Cameron rarely get to attack each other directly. Their sole arm-wrestle so far was during the budget in March, when the leader of the opposition traditionally gets to reply to the chancellor in the House of Commons. Both sides are wondering what the best lines of attack will be when the time for direct combat comes. This week revealed a little more about how they will line up against each other.

Mr Brown deployed nuclear weapons against Mr Cameron in his Mansion House speech to City worthies, pledging support for a successor to Trident, Britain's independent nuclear deterrent. He played the statesman (the speech was littered with “long-term decisions”) who would bring security where once he had brought stability, while Mr Cameron was offering policies on bicycling and children's clothes.

After this bit of positioning, Mr Brown added two other themes. On June 22nd he grabbed the flag, hosting a discussion about one of his favourite subjects—teaching British values in schools. Later in the day it was the environment's turn. Mr Brown played host to Al Gore and attended a screening of his guest's eco-documentary, “An Inconvenient Truth”. Again the message was clear: while Mr Cameron tackles the environment with a mixture of warm words and photo opportunities, your chancellor is a heavyweight who hangs out with former vice-presidents.

Mr Brown did not neglect his base either. Over the weekend his protégé, Ed Balls, who ran the Treasury with Mr Brown before being elected MP for Normanton, assured a conference of discontented Labour supporters of his (and therefore Mr Brown's) solid Labour credentials. He talked about the importance of “backing modern manufacturing” and reminded them that the eight Labour MPs who had sat in parliament for his constituency had all been coalminers. Mr Balls was a journalist before he became a politician, so his practical exposure to mining is limited, but the sentiment was appreciated.

Mr Cameron, for his part, exalted the wonders of family life. He hinted at changes to the tax system to support couples with children, including more write-offs for child care. This ought to please family-values Tories. But he warned his party against slipping into what George Bernard Shaw called the “trade unionism of the married”, stressing that the Tories are now at peace with Britain's single mothers. After heavy briefing from his aides, the speech was glossed as being good news for gay couples and nannies. Mr Cameron won't mind that, as long as voters see a contrast between his approach—allowing families to get on with running their affairs—and that of the meddlesome Mr Brown and his tax credits.

None of which sounds much like an argument over the future direction of the country. In fact one of the odd things about the tussle between Mr Brown and Mr Cameron thus far is that both are fighting to claim the mantle of an unpopular prime minister. That should comfort Mr Blair as he looks at his approval rating, measured by pollsters at Ipsos-MORI. It now shows a 41-point gap between those who think he is doing a good job and the bigger group who think he isn't.

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The BBC

Walking the line

Jun 22nd 2006
From The Economist print edition

The BBC shrugs off criticism of its coverage of the Israeli-Palestinian conflict

AS A sick Yasser Arafat, leader of the Palestinians, was helicoptered out of his compound in Ramallah in 2004, a BBC correspondent, Barbara Plett, broadcast her reaction to the event in a radio programme called “From Our Own Correspondent”. She described how she had wept as she contemplated the “frail old man” who had dedicated his life to his people's cause. Many seized on her account as further evidence that the BBC has been biased against Israel for years. But according to a report on its coverage of the Israeli-Palestinian conflict, paid for by the corporation's governors, the BBC may in fact give too much voice to Israel. This week the BBC's bosses responded to the study, rejecting its main recommendations. One of its authors promptly complained.

The governors' independent panel found little to suggest “deliberate or systematic bias” towards the Palestinians or the Israelis. But it also said that the BBC does not always give a full and fair account. It does not include enough history and context, for instance, and it reports too little on the daily difficulties of the Palestinians under occupation. Examining programmes from 2005 until January 2006, the panel found that the BBC gave more airtime to Israelis and paid more attention to Israeli deaths. On the other hand, it said that the BBC should use the words “terrorism” and “terrorists”, rather than the more neutral “bomber” or “militant”, when covering deliberate attacks against civilians during the conflict—as it did in its reports on the bombings in London last July. That would soothe Israel's supporters, who argue that the BBC's usual language risks legitimising terrorism.

To report better on the Palestinians, the BBC will open a bureau in the West Bank. A new section on its website will try to provide history. The BBC will not, however, start referring to “terrorism” and “terrorists”. After the London bombings it decided to adopt its international vocabulary at home, to be more consistent. As for the extra time given to Israeli politicians and commentators, the BBC argues that there is no reason to give equal airtime to the two sides. Neither will the BBC appoint an editorial “guiding hand” to oversee coverage of the conflict, as the report requests; it already has a firm structure in place, it says.

That the BBC dares to ignore the report's recommendations shows its confidence. In 2003 the Beeb appointed a Middle East editorial adviser to ensure fair reporting. And as for its alleged tilt towards Israel, the panel's work may be misleading. Much of its analysis of the BBC's coverage looked at stories in the aftermath of Israel's withdrawal from Gaza, when positive stories were more likely. The Palestinian Authority's inability to control Gaza, meanwhile, attracted negative attention. Pro-Israeli critics of the governors' report argue that the period was not representative of the conflict as a whole. A report on the reporting, it seems, is just as vulnerable to attack.

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Pop music

Thank you for the music

Jun 22nd 2006
From The Economist print edition

An old favourite falls victim to a changing market

FOR a comparatively young genre, pop music is suspiciously full of “historic” moments. But the announcement on June 20th that the BBC was to cancel Top of the Pops (ToTP), a weekly tour of the singles chart that has been broadcast since 1964, surely qualifies. The programme itself was embarrassingly naff: presenters often seemed bemused by the bands; many acts refused to perform, objecting to the requirement to mime along to a pre-recorded track; and skimpily clad dancers were a main attraction. Nevertheless, at the height of its popularity in the 1970s, 15m people tuned in each week.

Today only a tenth that many people watch, and a series of revamps and schedule changes has been unable to reverse the show's decline. The BBC says that the programme has withered as music-lovers have become better served. The first big change came in the 1980s with the advent of Music Television (MTV), an American channel offering a constant diet of pop. Today impatient fans can get an instant fix from any one of several music channels, many specialising in particular genres.

More recent is the rise of the internet, which has made finding new music even easier. In March Britain made musical history when an American band named Gnarls Barkley reached the top of the singles chart before its song was available in shops. For the first time anywhere, a song had been propelled to the top spot entirely by internet downloads. Sandi Thom, a Scottish singer, recently signed a £1m contract with Sony after tens of thousands of internet users watched her play live “concerts” from the basement of her Tooting flat. (Some think her success was masterminded by Sony from the start.)

On the face of it, Britain seems ill-suited to this new digital world. It is not particularly internet-savvy: the number of broadband connections per household hovers around the OECD average. Online music is more expensive in Britain than elsewhere. Apple's iTunes website (the market leader) charges 79p per song in Britain, compared with €0.99 (68p) in France and Germany and $0.99 (53p) in America.

Paul Jackson, an analyst with Forrester, a market-research company, points out that Britain has advantages too. There is plenty of home-grown talent. The music market is the third-largest by volume, behind America and Japan. Britain also shares a language with America, which pioneered music downloads, and so is a natural first choice for firms looking to expand overseas. Crucially, he says, the British market is less fragmented than America's and thus quicker to adopt new trends in musical taste or delivery mechanisms.

Fans of cheesy singles should not despair over ToTP's demise. Most observers expect downloading to give the singles market a boost, since individual songs are the natural sales unit for online stores. The likely effect on album sales is less clear. Albums tend to be three or four good tracks padded out with filler; some musicos have forecast that allowing listeners to strip out the dross will kill the format. Paul Want, of the UK Charts Company, is less sure. “Album sales have held steady so far,” he says. “If anything, I think that downloads will drive album sales by allowing people to sample new bands.”

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Natural gas

Trouble in store

Jun 22nd 2006
From The Economist print edition

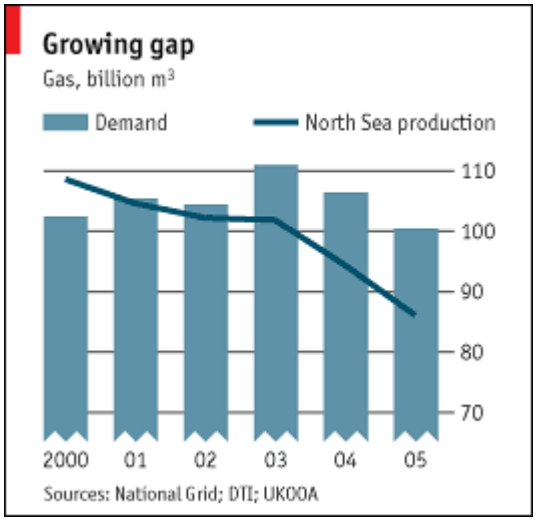
A lack of storage could mean another winter of roller-coaster gas prices

JUNE may seem an odd month to be worrying about winter heating. But businesses around the country were nevertheless relieved when Centrica, once a state-owned gas company, confirmed last week that gas was again being pumped into Rough, a depleted North Sea field which it uses to store natural gas. The field (which accounts for around three-quarters of Britain's total gas storage) had been out of action since a fire in February.

In days gone by, Rough's absence might have gone broadly unnoticed. But the effects of last winter's fire were dramatic. With almost no stored gas available to meet spikes in demand, a cold snap in March caused wholesale prices to quadruple in four days. National Grid, which runs the distribution network, warned—for the first time ever—that it might not be able to match supply with demand.

In the end, no disconnections were needed. But the zooming prices highlighted the paucity of gas storage in Britain, and the risks of relying so heavily on a single, big reserve. Shortly afterwards Alistair Darling, the new trade and industry secretary, introduced planning guidelines designed to speed up the construction of additional gas stores.

Historically, the North Sea's bounty has left Britain with little need to store gas, since shortages could be dealt with by simply pumping faster. But the North Sea's declining production can no longer be relied upon to meet demand (see chart). That leaves Britain's gas stockpiles—around 14 days at peak demand—looking worryingly small, especially compared with those in European countries, which often store two months' worth of gas or more. Ministers had believed that, as the North Sea ran down, new import infrastructure would bridge any gaps. But the events of last winter cast doubt on that idea: expensive import pipelines and liquid natural gas (LNG) terminals stayed obstinately underused even as temperatures plunged and gas prices soared. Mr Darling now says that extra storage is “critical to our national energy security.”



In a liberalised market, private firms should provide storage to take advantage of the difference between summer and winter gas prices. But not everyone is convinced that the market is delivering. Planning problems are one reason: worried residents scotched a planned gas store beneath Lancashire earlier this year, and other projects have faced long delays. Mr Darling's new guidelines should make it harder for planners to refuse applications.

Economics is another reason. Storing gas is expensive, partly because reservoirs need to be pumped full of unrecoverable “cushion gas” to maintain pressure, and partly because storing gas for the future means giving up the opportunity to sell it today. “When prices are low you don't need storage because gas is abundant,” says Andy Morris of ILEX, an energy consultancy. “When prices are high, and you do need it, it's very expensive to build.” Instead firms, like the government, have relied on new import infrastructure to meet most of the winter demand. After last winter, that looks optimistic.

Nevertheless, investment in storage has risen as spreads between summer and winter prices have widened. Ten new projects are planned, which together should double Britain's storage capacity by 2010.

But that will be cold comfort to firms and consumers anticipating another tight winter in six months' time. “The market is too slow,” says Jonathan Stern, an analyst at the Oxford Institute of Energy Studies. “By the time it was signalling the need for more storage it was too late.”

The biggest problem, adds Mr Stern, is that markets find it hard to insure against rare, unpredictable but catastrophic events such as an explosion in a pipeline or a terrorist attack—or the fire that shut down Rough. With that in mind, one question being considered by the government's energy review is whether the state should step in and set up a “strategic” gas reserve (something similar already exists for oil).

Such government intervention may be prudent but it could have unintended consequences. Bruce Walker, head of Centrica Storage (which runs Rough), worries that a government-run reserve would be seen by the private sector as a safety net, reducing its incentive to build commercial storage. “The government would have to say that it wouldn't use the reserve unless something really catastrophic happened,” he muses. “But would people believe it?”

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University funding

Chronicle of a death foretold

Jun 22nd 2006
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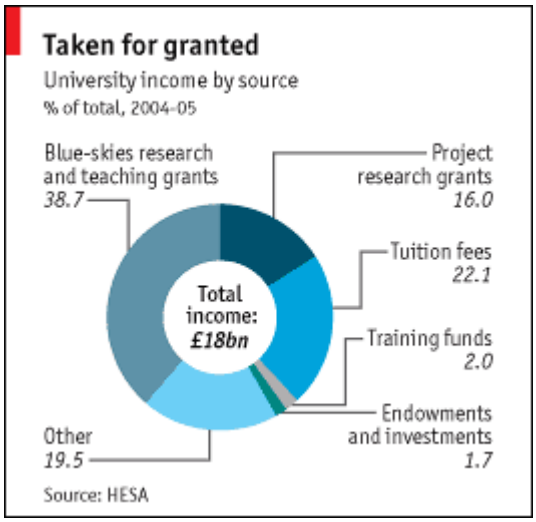
A Byzantine system demands reform but has yet to get it



INNOCENT observers might imagine that Britain's academics would be delighted to bid farewell to the unwieldy system for funding research that they have struggled with for two decades. Observers would be wrong. Government proposals to scrap the Research Assessment Exercise (RAE) in favour of a simpler grant-matching scheme has many of the brightest and best up in arms. The RAE, labour-intensive though it is, has helped to raise the standard of British research in many subjects to a level just below America's, they say.

The RAE is one of two main sources of research money in higher education. (Most of the rest comes from eight research councils, each devoted to a particular subject, and a small but growing stream from charities and businesses—see chart.) It is enormously complicated. Sixty-seven panels of 900 experts (including 50 international judges) look at the work of researchers in everything from Byzantine studies to aeronautics and award their departments stars. The four higher-education funding councils that mount the RAE use this information to award grants to universities, to be spent as they wish.

Critics, who include the vice-chancellors of Bristol, Middlesex and Warwick universities, claim that the RAE discriminates against interdisciplinary research and favours fundamental inquiry rather than the "user-focused" research preferred by business. David VandeLinde, Warwick's vice-chancellor, dislikes its seven-year cycle—a shorter-term system, he says, would suit a "fast-changing world".

Ministers criticise its cost and bureaucracy. Even the RAE's defenders concede that its consequences can be unwelcome: star researchers are poached by rivals before an assessment and lesser performers fired before they can be found wanting. And it is hugely time-consuming.

So when Gordon Brown, the chancellor, said in March that he was thinking of replacing the next round of the RAE—due in 2008—with something simpler such as "metrics", or statistical performance indicators, he probably expected plaudits. Brickbats were in greater supply.

Vice-chancellors of institutions that have profited from the RAE, including many of the elite, picked the proposals apart. They disliked the fact that the new "metrics" would amount mainly to matching funds from other research councils, charities and industry. Ian Leslie, the pro-vice-chancellor for research at Cambridge University, pointed out that business funding does not depend on academic judgment and is not a fair assessment of quality. Arts researchers, for their part, said that their work would be doubly penalised because they did not attract big research grants from other sources.

Faced with these complaints, the government suffered a crisis of confidence. Instead of dropping the 2008 RAE, it will now run a shadow metrics exercise along with it. On June 13th the Department for Education and Skills released details of five separate models, comparing the funding they would produce with that of the RAE. Three top institutions—Imperial College London and the universities of Manchester and Cambridge—would lose out. Malcolm Grant, the provost of University College London, warned that if metrics did not come up with the same result as the RAE they would be "useless—because the RAE is a pure measure of quality".

The Education Department has also conceded that cash for research in arts subjects can continue to be awarded according to the old system of peer review. Bill Rammell, the minister for higher education, accepts that the new system may be “hybrid” but says it will work well.

These compromises have annoyed other academics. Michael Driscoll, vice-chancellor of Middlesex University, says that prolonging the “busted-flush” RAE is just a way of placating those who will lose under metrics. Politicians have learned one lesson the hard way: you can't please all of the academics all of the time.

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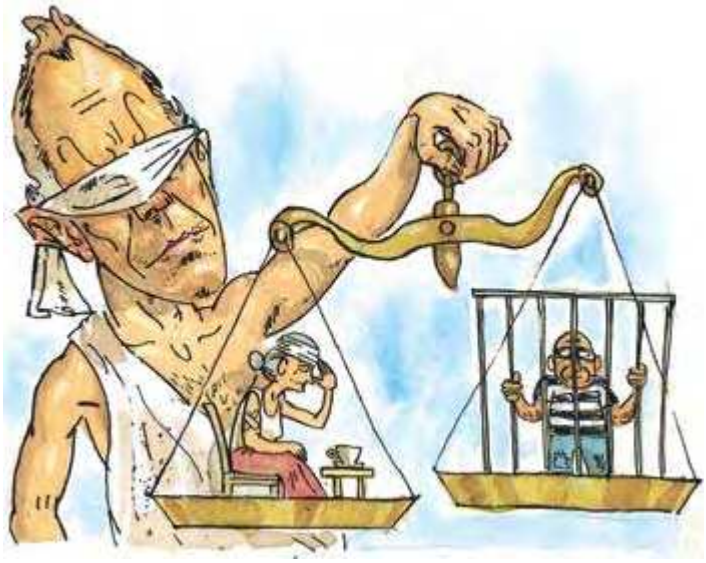
Bagehot

The right side of the argument

Jun 22nd 2006
From The Economist print edition

Tony Blair has prospered by making crime a Labour issue. But for how much longer?



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EARLIER this week, Tony Blair made a guest appearance on a BBC radio “football phone-in” show to chat with members of the public about the World Cup. A more-than-averagely knowledgeable fan, Mr Blair's performance was less embarrassing than that of the England team in Germany. But afterwards, poor Mr Blair was lambasted as an ignorant phoney, exploiting the people's love of the beautiful game to boost his flagging popularity. It has become deeply unfashionable to suppose that the prime minister has anything worth saying on any subject.

Undaunted, on June 23rd Mr Blair was due to deliver a lecture at Bristol University on criminal justice—a subject much in the news thanks to the goings on at the Home Office and a spat between John Reid, the new home secretary, and the judiciary over sentencing policy. Mr Blair's theme, one that he has touched on many times in the past, was expected to be the need to “rebalance” the system in favour of the victims of crime.

For many wronged and innocent people, a brush with the criminal-justice system is an unsatisfactory and sometimes traumatising experience. Victims and witnesses find themselves caught up in what seems like a capricious legal game that too often appears to favour the flagrantly guilty. Mr Blair will argue that among the many unfortunate consequences of declining public confidence in the courts is a desire that justice be ever harsher and more retributive. Only by restoring society's trust in the system will it be possible to gain consent for spending time and real money on rehabilitating criminals.

For his pains, Mr Blair can expect to be attacked from both sides. The legal profession and its liberal supporters will accuse him of playing to the tabloid gallery, while many of those with whom he would once have struck a chord will dismiss it as just more talk from a prime minister whose time is running out.

They may have a point. But what should not be in doubt is Mr Blair's strength of feeling on the subject,

nor its centrality to his politics. The making of Mr Blair as a politician of the first rank was his stint as shadow home secretary after Labour had lost the 1992 election. Eight months into the job, he used for the first time a phrase that became emblematic of New Labour and the break with Labour's past that it represented. In a radio interview, Mr Blair promised that Labour would be both “tough on crime and tough on the causes of crime”.

Although the clever phrase was actually Gordon Brown's, it perfectly encapsulated the important New Labour theme of rights and responsibilities. It also separated Mr Blair from Labour's reputation for being soft on crime, earned in the 1960s when Roy Jenkins, a liberalising Labour home secretary, had supposedly invented the permissive society. Significantly, Mr Blair used the phrase just a few days after visiting the victorious Clinton campaign team in Washington.

It would be hard to exaggerate the influence of Bill Clinton on the gestation of New Labour, especially the need for centrist politicians to identify themselves with conservative social values. Mr Clinton had seen how George Bush senior used the release on furlough of Willie Horton, a convicted murderer, to destroy his Democratic rival for the presidency, Michael Dukakis, and had worked hard to reclaim crime as a Democratic issue. Thankfully, Mr Blair did not ape Mr Clinton's enthusiasm for the death penalty; the lesson he did learn was that the Tories should not be allowed to monopolise toughness on crime.

To be fair to Mr Blair, he was fired up by more than electoral calculation. In his ten years as the MP for Sedgefield, a safe Labour seat in the north-east, he shed a good many of his Islington lawyer beliefs. His constituents convinced him of two things. The first was that working-class communities were most at risk from the kind of pervasive low-level criminality that blights lives. The second was that these traditional Labour supporters had no time for the prevailing view in elite Labour circles that the wickedness of society, rather than that of criminals, was responsible for most crime.

Apart from Sedgefield and Mr Clinton, the other main influence on Mr Blair came from the communitarian ideas of the philosopher John Macmurray and later thinkers, such as the American sociologist, Amitai Etzioni, whom he met in 1995. Mr Etzioni believes that the stress placed by developed Western societies on individual rights has come at the price of undermining the notion of responsibility to a wider community—a key element in Mr Blair's disagreements with the judiciary since becoming prime minister.

It's the fear of crime, stupid

Nine years as prime minister have if anything reinforced his convictions, both political and moral. Nothing does more to reassure Mr Blair that he is “on the right side of the argument” than when his critics in the legal establishment accuse him of pandering to the punitive agenda of tabloid newspapers and surrendering to working-class authoritarian prejudices.

Whenever Mr Blair sallies forth from Downing Street to meet some real people, his office asks in advance what they would most like to talk to him about. Almost invariably anti-social behaviour and crime will be at the top of their agenda. Never mind that figures show most sorts of recorded crime have been in decline for a decade. As Mr Blair said earlier this year, “It is not about statistics, it is about how people feel...the fear of crime is as important in some respects as crime itself.”

Therein lies Mr Blair's problem. Being “on the right side” of this particular argument has served him well. But if a cynical, fearful public concludes that he has about as much chance of changing the legal system for the better after all his years in office as England have of winning the World Cup, it's an argument that may have become self-defeating.

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The mess at EADS

Forgeard's forward defence

Jun 22nd 2006 | PARIS
From The Economist print edition

A very French crisis at a very European firm

Reuters

“I HAVE the choice between being considered someone dishonest or someone incompetent who doesn't know what is going on in his factories,” said Arnaud Lagardère. “I prefer the second version.” Two days after the announcement on June 13th of the delay of up to seven months in deliveries of the A380 passenger jet, the co-chairman of the European Aeronautic Defence and Space (EADS) company ate humble pie. He rejected the accusations of those who suspect that he must have had an inkling of the company's difficulties when he sold a big chunk of his stake in EADS in April. But he admitted that he should have been informed of the new aeroplane's production problems.

Compared with Mr Lagardère, who has no operational role at EADS, the man who actually runs the group was not at all contrite. Noël Forgeard (pictured above), one of EADS's two co-chief executives, claimed in numerous interviews that Airbus, the subsidiary of EADS making the A380, was not late in admitting its production problems. (In fact, it took Airbus two months to make them public.) The relationship between Airbus and EADS is completely transparent. (In fact, Airbus is run as a semi-autonomous fief.) The war between German and French shareholders and managers is over. (In fact, they are at each other's throats.) And he categorically denied using inside information when he pocketed €2.5m ($3.2m) for himself and his family after exercising share options in March. He was, he said, “shocked by presumptions of his guilt”.

The problems experienced by Airbus's new super-jumbo do not threaten the survival of the company, although they are a serious setback. Industrial projects of such scope are rarely completed on time. What sets this crisis apart from other delays in aircraft production are the revelations about governance at this quintessentially European industrial group. For many years its internal politics and its dual management structure had been considered a bearable handicap. But recently they have become a bigger problem.

The troubles at EADS started when its German and French factions clashed in a fierce battle over the company's top jobs last year. EADS has always had French and German co-chairmen and co-chief executives because of the firm's binational shareholder structure. French shareholders own 22.5% of the firm (the government has 15% and the Lagardère conglomerate has the rest), Germany's DaimlerChrysler has another 22.5% and 5% is held by SEPI, the Spanish government's industrial holding

company. The remaining 50% is publicly traded. The row over the nomination of Mr Forgeard (hitherto boss of Airbus) and Thomas Enders (until then in charge of the defence end of EADS) rumbled on for months, because Mr Forgeard wanted to be the sole chief executive or, at least, the more powerful of the two. The dispute delayed their official appointments and distracted top management. It also did not make Mr Forgeard many friends.

When the complicated quarrel was at last settled, the company's French faction embarked on another campaign that upset the German side. It lobbied the French government to broker a merger between EADS and Thales, a defence-electronics company controlled by the French state. The Germans blocked what they saw as another attempt by their neighbours to tilt things the French way. So Thales is still available for a corporate marriage.

The series of mishaps continued this year. Last month EADS sacked Jean-Louis Gergorin, a senior executive, who had been linked to the Clearstream affair, a smear campaign connecting important French politicians to secret bank accounts in Luxembourg. Shortly afterwards EADS came under fire in France because of its plans to shut a loss-making subsidiary near Bordeaux. After intervention from Dominique de Villepin, the prime minister, EADS bosses promised to keep about 300 of the factory's 1,000 jobs.

So news of the costly delays to the A380 project came at a tricky moment. The drop in the value of EADS shares after the announcement of the delays wiped €5.5 billion off the stockmarket valuation of the firm in a single day. Estimates of the final bill for compensation payments for the jet's delayed delivery are as high as €3 billion. So far only International Lease Finance, the biggest aircraft-leasing company, has threatened to cancel its order, of ten of the 555-seat planes. But Emirates, the biggest customer of the A380, and Singapore Airlines, another big client, are demanding compensation.

Who and what is to blame for the jumbo's delivery delay? After an investigation the firm concluded the main culprit was the installation of electrical wiring for the aircraft's entertainment system. Although this is not demanding technically, it does require a lot of labour. Each aeroplane needs some 500km (300 miles) of cables. Misplacing one cable means starting almost from scratch.

At an emergency meeting in Munich on June 19th EADS bosses also talked about making changes in the firm's structure. One important step to streamline the company is the planned full integration of Airbus into the folds of EADS, after BAE Systems, a British defence company, sells its 20% stake in Airbus. This will make the control of Airbus clearer and easier. BAE is expected to sell its stake this summer.

The group's main problem, however, remains its bicephalic structure. It was created six years ago after an Anglo-German marriage of British Aerospace (now BAE Systems) and Daimler-Benz's DASA collapsed acrimoniously. The Germans quickly found consolation in the arms of Aerospatiale Matra, a partly privatised French group. Thus EADS was born.

The tensions inherent in such a delicate construct resurfaced almost immediately after last week's announcement. Mr Forgeard blamed a factory in Hamburg for the delivery delays of the A380, although he apologised later for his finger-pointing. In a barely veiled attack on his French counterparts Mr Enders said he considered it “inopportune” to exercise his stock options a few months ago. “Investors are pricing the stock at a discount, because keeping the balance of power is the firm's priority above and beyond everything else,” says Scott Babka, an aerospace analyst at Morgan Stanley.

Mr Forgeard is determined to cling on to his job. But he is not in a strong position. He is being investigated by French regulators because of his controversial share sales. Jacques Chirac, the French president, who is his main backer at home, is weakened. And he is one of the people accused in a lawsuit for misinformation and insider trading brought on behalf of EADS shareholders by Frédérik-Karel Canoy, a French lawyer.

Mr Forgeard's departure would not solve the group's problems, although it would be a welcome signal of a desire for change. It will certainly not be easy to take the politics out of EADS. At the beginning of the week Mr de Villepin dispatched Thierry Breton, his finance minister, to meet Mr Lagardère to discuss changes to the shareholder structure. The shareholder agreement may not give the state enough power, says Mr Breton. Hardly anyone, other than France's most interventionist politicians, agrees with that. Mr Lagardère would be wise to resist attempts by the government to extract more power from their shareholder pact.

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Telecoms equipment

Twisted pair

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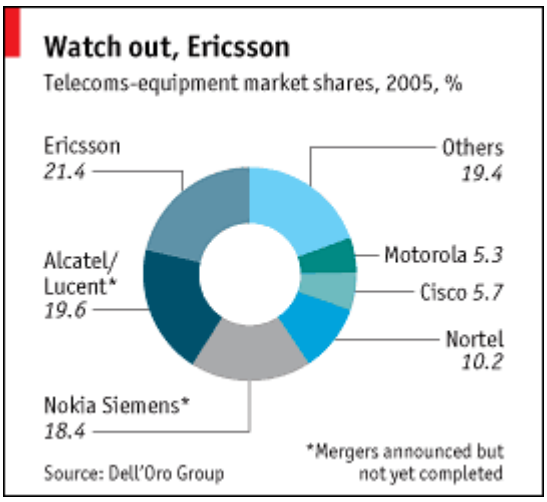
Nokia and Siemens pool their network divisions to form a new firm



NESTLED underneath streets, hung high overhead and worming their way through homes and offices are copper wires, the arteries of an earlier era of telecommunications. As new services like cable television, internet and mobile phones emerged, separate networks were laid. Today, telecoms firms are offering an ever-wider array of services, and are merging their businesses to do so. But the companies making the physical equipment have been less adept at tailoring their gear for a world in which all sorts of communications can stream over a single network.

This is starting to change. On June 19th Nokia, a Finnish firm specialising in wireless communications, and Siemens, a German company strong in fixed-line telecoms, agreed to pool their network-equipment divisions in a joint venture. Other units, such as mobile handsets, are not part of the deal. The new firm, called Nokia Siemens Networks and based in Finland, will be the world's third-largest telecoms-equipment maker, with sales of around €16 billion ($20 billion) and 60,000 employees (of whom as many as 15% will be laid off). The firm expects the overall market for equipment and services to grow in five years to more than €130 billion, from around €100 billion last year.

By joining forces, the companies believe they can develop integrated products for telecoms operators vying to sell a “quadruple play” of fixed-line, broadband internet, wireless and television. The new firm will benefit from economies of scale to compete against Asian rivals, explained Klaus Kleinfeld, the boss of Siemens. By being third-largest, the firm will “have an attitude of a challenger,” said Olli-Pekka Kallasvuo, who became Nokia's chief executive on June 1st.

For operators, having a single supplier of equipment to handle all kinds of telecoms services can be preferable to cobbling together devices from several manufacturers. Managing a single network is easier and cheaper than struggling to cope with multiple networks, each geared for a specific service, such as the “twisted-pair” wires upon which voice calls travel.

The melding of services is happening fast. Just this week O2, a mobile operator owned by Spain's Telefónica, bought a British broadband firm for £50m ($92m), and Warner Music said it would begin to sell music to subscribers of China Unicom, a big mobile operator. This month Orange, France Telecom's mobile-phone division, began bundling communications packages with its parent's broadband unit. In America AT&T will start selling an internet-and-television service in July.

The Chinese threat

In the midst of such convergence—as well as a shrinking customer base and plummeting prices—telecoms-equipment makers have started to join forces too. In October Sweden's Ericsson bought bits of Marconi in Britain for around $2 billion. In April Alcatel of France said it would buy America's Lucent for around $14 billion. Those mergers seemed to be more about size than synergy. Only the Nokia and Siemens deal combines companies with strong positions in different parts of the industry. Yet the central reason for all the deals is falling prices. “We have seen a 70% price drop in 3G infrastructure over the

past five years," explains Bengt Nordstrom, of inCode, a telecoms consultancy.

The tie-up between Nokia and Siemens will now put pressure on independent equipment vendors, notably Motorola and Nortel, to bulk themselves up or face further difficulties. But so far the telecoms merger wave has only involved firms in Europe or America. The long-term threat to these firms is likely to come from Chinese companies such as Huawei and ZTE, which can almost always win on price and are looking more and more sharp on quality too. Innovation will therefore be increasingly important for the prospects of telecoms firms. After a century of communication over copper, the future will belong to those who can best replace it.

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Airlines

Under investigation

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Antitrust troubles for British Airways

“WE ARE starting to see some light at the end of a five-year tunnel,” said Giovanni Bisignani, head of the International Air Transport Association, earlier this month, reflecting on the airline industry's slow climb back to health. But on June 22nd British Airways (BA) soured the newly optimistic atmosphere by announcing that it—and several of its competitors—are under investigation by the American and British competition authorities. Martin George, the firm's commercial director, and Iain Burns, its head of communications, have both been given “leave of absence”. The news surprised the markets: BA's share price fell, by as much as 6% at one point, wiping out much of its gains since the start of the year.

The airline business already had competition worries. In February, the European Commission and the American Department of Justice announced an investigation into collusion in the air-cargo market involving dozens of airlines. This new investigation focuses on the long-haul passenger market. As well as general price collusion, investigators are worried about the fuel surcharges, levied on top of normal ticket prices, that many airlines have introduced as oil prices—and hence fuel costs—have risen.

The airlines' defenders say that these charges are a transparent way to account for the extra costs imposed on airlines by rising fuel prices, and question the scope for collusion in the modern airline market. Low-cost airlines such as EasyJet and Ryanair have forced prices down in the short-haul markets in Europe. And competition is spreading to long-distance routes too, where EOS and MAXjet, two recently launched airlines, now provide low-cost competition to BA on its core transatlantic routes. But the consumer market is only one part of the air-passenger business. Most airlines negotiate separate deals with big corporate customers, and it is here, say some analysts, that there may be more scope for misbehaviour.

It is unclear exactly how big the investigation is. Three other airlines—Virgin Atlantic, American Airlines and United Airlines—have all said that they are “co-operating with investigators”, but do not seem to be targets themselves, and American and British officials have so far refused to give any details. The investigation into the cargo business involves well over a dozen airlines, although some, like Lufthansa, SAS and KLM, have confirmed that they are not involved in the passenger probe.

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Newspapers

Paying tribute

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The Tribune Company is in trouble with some powerful shareholders

CIRCULATION is falling, morale is low and advertising revenues are down: in a word, the strategy pursued by the Tribune Company, owner of 11 daily newspapers across America, including the *Los Angeles Times* and the *Chicago Tribune*, and a couple of dozen television stations, has been “disastrous”. That, at least, is the adjective used by the Chandler family, former owners of the *Los Angeles Times* and holders of 12% of Tribune's shares, in a scathing 11-page letter delivered last week to the Tribune board. Vehemently opposing a plan by Tribune to raise its share price by buying back some 25% of its stock at a cost of around $2 billion (the deadline is June 26th), the Chandlers say Tribune should either put itself up for sale or, by the end of the year, break itself up.

That challenge may be a long shot. The Chandlers, whose Times Mirror Company controlled not just the *Los Angeles Times* but papers such as Long Island's *Newsday* and the *Baltimore Sun* until an $8.3 billion merger with Tribune in 2000, have only three seats on Tribune's 11-member board, and little obvious support from other shareholders. Indeed, Tribune's chief executive, Dennis FitzSimons, confidently asserted this week that the buy-back scheme was “on track”. And to add weight to its promise to sell at least $500m in “non-core assets”, the company announced it had agreed to sell two of its 26 television stations, in Atlanta and Albany, for $197m.

Yet it is hard to dismiss the Chandlers' complaints. As their letter says, “One of the core strategies underlying the merger with Times-Mirror was the synergistic growth opportunities of cross-ownership.” In simpler English, Tribune's newspapers and TV stations would share editorial content, offer joint packages to advertisers and, with papers and TV stations in Los Angeles, Chicago and New York, reach 80% of the population.

So much for the “cross-media” theory. The reality is that readers, viewers and advertisers have found other attractions, notably the internet. Take, for example, the *Los Angeles Times*, America's fourth-biggest newspaper. Its circulation has dropped by 5.4% in the past year and is now down to some 851,500—a huge decline from its peak of 1.2m in 1990. Or take advertising revenue. Though in the first quarter it was slightly up at the *Chicago Tribune*, it was down by 3% for the *Los Angeles Times* and by 6% for *Newsday*. As the Chandlers' letter witheringly points out, the Tribune Company consistently lags behind its media peers in the kind of things that investors find important: its share price, its revenues and its profits.

Arguably, the Chandlers protest too much. Some of today's dismal performance stems from problems at the Times-Mirror properties which have their origins in the Chandler period: notably, fraudulently inflated circulation figures at *Newsday* (Tribune had to reimburse advertisers), a $1 billion tax penalty from a Times-Mirror transaction and the decline in the fortunes of the *Los Angeles Times*.

And the Tribune Company is hardly the only media group with angry shareholders. In April Morgan Stanley and other disaffected investors, representing 28% of the shares in the New York Times Company, ostentatiously withheld their votes at the annual meeting, in protest at the falling share price of the paper under the control of the Ochs-Sulzberger family. Similarly, activist investors in Knight Ridder, formerly America's second-biggest newspaper company, forced the firm to put itself up for sale late last year.

But whatever their troubles, America's newspapers remain potentially valuable properties. The McClatchy Company, which in March agreed to buy Knight Ridder's 32 papers for $4.5 billion in cash and shares, is set to more than cover its purchase price by selling 12 of the papers in ones and twos.

Perhaps similar results could be achieved by breaking up the Tribune Company? Some analysts reckon that the sum of its parts could be worth 50% more than Tribune as a single unit. By pledging to sell “non-core assets”, the Tribune management implicitly recognises the force of that argument. But one asset, underperforming though it is this season, is apparently not for sale: the company intends to keep the Chicago Cubs baseball team.

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Chinese tourism

Outward bound

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The Chinese are starting to travel abroad. But getting them to spend is difficult

CHINA'S citizens do not only export goods; increasingly they export themselves. The concept of tourism—going abroad for pleasure rather than for business—is less than a decade old in China. Yet since the Chinese government sanctioned overseas leisure trips in 1997, tourism has grown hugely. Last year more than 31m Chinese travelled outside mainland China and the World Tourism Organisation expects this number to grow to 50m by 2010 and 100m by 2020. Across the world, hotels, shops, restaurants and travel agents are salivating at the prospect.

AP

Which way to Galeries Lafayette?

Although there is money to be made, profits will be harder to come by than the headline numbers suggest. For a start, of those 31m, some 21m only made it as far as Hong Kong and Macau. Half of the rest were “border tourists”, on day trips to Russia, Vietnam or Laos to trade or gamble in casinos, which are illegal in China. Only 5m-6m Chinese could be called international tourists and most chose Asian destinations such as Thailand and Malaysia. Just 1m visited Europe and only a handful made it to America and Canada, which still restrict Chinese visitors.

Nor are the Chinese likely to resemble the free-spending Japanese visitors who lifted global tourism revenues in the 1980s. Most first-time travellers from the mainland are deeply frugal. Typically, a Chinese tour group will choose the cheapest hotel—even if it is 50km (30 miles) outside a city—travel by bus and eat only Chinese food, says Wolfgang Georg Arlt, a professor of tourism at Stralsund University in Germany and author of a new book on China's outbound tourism. They visit only the most famous attractions and even these often get only a cursory glance.

Those who return for a second or third visit will often spend more. But return visitors will be a minority for a long time to come—and so posh hotels, resorts and restaurants will have to wait for their Chinese windfall. At a recent conference organised by the European Tour Operators' Association, hotel owners complained that the Chinese were pushing down room prices.

Hard beds and cold noodles

Chinese tourists are willing to put up with hard beds and cold noodles for a reason: they are champion

shoppers who prefer to concentrate their spending on luxury branded goods, which are cheaper than back home and guaranteed not to be fakes. In 2005 they spent more on shopping, per day and per trip, than travellers from Europe, Japan or America.

The biggest winners of the Chinese tourist boom are therefore likely to be international retailers and luxury-goods manufacturers. In Germany the second most visited place by Chinese tourists after Berlin is Metzingen, a small town in the Black Forest unknown to most Germans, but home to a giant Hugo Boss discount store—since joined by another 20-odd factory outlets for designer labels. Big, diversified luxury-goods groups—including LVMH, Richemont and Swatch—which are present in duty-free outlets and big cities worldwide and have established brands in China itself, should also do well. Antoine Colonna, an analyst at Merrill Lynch in Paris, reckons that the Chinese account for around 11% of the €97 billion ($121 billion) annual revenues of the luxury-goods industry today and that this will rise to 24% by 2009, surpassing the Americans, Japanese and Europeans.

Those that do best, though, understand that Chinese shoppers can be tough customers, says Mr Arlt. “Compared with the Japanese, Chinese mainland tourists coming to Europe for the first time are ruder, louder and more demanding,” he says, citing a tendency to smoke under “no smoking” signs, haggle over prices and rip off packaging at the checkout to be sure that everything is in the box. “All that makes sense in China, but European salespeople think it is very rude,” says Mr Arlt.

A growing number of organisations are, however, more than happy to cater to the Chinese. Galeries Lafayette, a famous department store in Paris, celebrated China's “Year of the Dog” this February with decorations of red and gold pooches, New Year messages in Chinese wishing happiness, prosperity and longevity together with greeters fluent in Mandarin, a Sichuan restaurant and deep discounts on its designer goods. Small wonder, then, that the Chinese spend more in the shop than any other group of foreign visitors do.

Accor, a French hotel group, has adapted 56 hotels (the bulk are its mid-range Mercure and Novotel hotels) in Europe for Chinese tourists, offering noodles for breakfast, Chinese TV channels and Mandarin-speaking staff. Rosita Yiu, who oversees the effort, says Accor will open another 50 this year and perhaps 50 more next year.

Tourist authorities are also trying harder. Switzerland's has a website with local attractions explained in Mandarin. Berlin's city tourist authority has opened its own German-themed shops, partly aimed at the Chinese, and selling, among other things, cuckoo clocks and Swiss army knives—considered German by some in China.

Tactics like these will pay off as more Chinese travel. Mr Arlt estimates that by 2020 there will be 30m “genuine” international tourists from China. They will demand more sophisticated service and new experiences, and will also be increasingly willing to pay for them. Accor's Ms Yiu says that Chinese tourists making return trips to Europe want to stay in nicer, four- and five-star hotels. The western tourism industry will need to adapt quickly and intelligently to the demands of Chinese visitors—but the prize is huge for those who can manage it.

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Face value

Ozzie the wizard

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AP

Bill Gates replaces himself as Microsoft's software boss with Ray Ozzie, his top choice but one

THE co-founder, chairman and “chief software architect” of Microsoft, the world's largest software company, would deny it on his life, but the one person Bill Gates admires most for his geeky prowess—and might have chosen to succeed him as software architect—is almost certainly Steve Jobs. Unfortunately, Mr Jobs, the co-founder of Apple Computer and victim of Mr Gates's predatory business instincts during the 1980s and 1990s, cannot be considered available, since he is busy leading Apple's renaissance as a builder of gadgets and software that, in the opinion of his fans, put Microsoft to shame. So Mr Gates spent years courting the geek he admires second most, a software pioneer named Ray Ozzie.

After many overtures, Microsoft last year bought Mr Ozzie's company, Groove Networks, and thus brought Mr Ozzie and his brother Jack inside the Microsoft tent. Mr Gates then groomed Mr Ozzie to take the lead in defining Microsoft's direction at the highest (ie, software) level, alongside Steve Ballmer, the chief executive, who will continue to use his prodigious energies to bash heads together in the name of implementation, and Craig Mundie, who will oversee Microsoft's research efforts and policy lobbying. On June 15th Mr Gates made the transition official, announcing that he would hand over his role as chief software architect to Mr Ozzie in two years' time, in order to concentrate on becoming the world's greatest philanthropist.

Mr Ozzie, at 50, is one month younger than Mr Gates and nine months younger than Mr Jobs. Like the other two, he has been admitted to the Computer History Museum's “hall of fame” for his role in bringing about the PC era. As a kid in suburban Chicago, Mr Ozzie was already soldering all sorts of dangerous circuits together in a guest bedroom, but it was at college in the 1970s that he discovered his passion, which was, as he once put it, “to augment relationships” among human beings through technology. The catalyst was his encounter with PLATO, a cluster of a thousand dumb terminals that were connected to a mainframe and that Mr Ozzie and his friends playfully used to communicate, by exchanging what would today be called e-mails and instant messages. This experience so captured his imagination that he devoted his next three decades to writing software that enables “collaboration”.

His single biggest breakthrough came in the 1980s, when Mr Ozzie personally wrote a million of the first

3.5m lines of code for the first successful collaboration software, Lotus Notes. At a time when nobody had heard of the world wide web, Lotus Notes already offered “workspaces” not unlike today's wikis. Mr Gates watched with his usual mixture of emotions towards innovations by others—envy and grudging admiration. These probably gave way to anxiety when IBM, Microsoft's partner-turned-enemy, bought Lotus in 1995 for $3.5 billion.

Mr Ozzie soon parted with IBM and again set out to take collaboration to the next level, this time by using new ideas about decentralised networks between people and their computers. This approach would subsequently be called “peer-to-peer” and has since been made famous by Napster, a method for “sharing” music, and Skype, a service for free internet telephony. Mr Ozzie's company, Groove, was not a commercial success this time, but Mr Gates and others in the industry nonetheless saw the idea and recognised its potential. Last April Messrs Gates and Ozzie joined forces.

One reason why Mr Gates is so drawn to Mr Ozzie is that, as Mr Gates has said, “Ray is incredible at thinking of the end-user experience,” an area where Mr Gates, whose own genius is weighted towards business strategy rather than software finesse, has a less stellar reputation. Another reason is Mr Ozzie's personality, which is the opposite both of Mr Gates's and Mr Jobs's. Mr Gates has a squeaky voice and sounds perennially on the point of irritation; Mr Jobs pushes his colleagues as Ramses did his pyramid-builders and appears to have a similar self-image. Mr Ozzie, by contrast, wears a permanent Buddha-like smile, speaks in a soothing, deep voice and delivers even harsh appraisals with reassuring charm.

Sitting in Lotus

Mr Ozzie's affability and his credibility as a geek and a Microsoft “outsider” now make him, in Mr Gates's eyes, the best person to lead Microsoft through a momentous upheaval. Mr Gates has for some time been obsessed with the fate of companies such as Digital Equipment Corporation that once were titans but succumbed to “disruptive innovators” (a phrase made famous by Clay Christensen, of Harvard Business School). For Microsoft, the disruptive technology is the internet, and in particular the trend towards providing software without charge through a web browser rather than for a fee in a shrink-wrapped box. The company that epitomises this trend, and that has perfected the advertising technology that is its business model, is Google.

The first signal that Mr Gates had tapped Mr Ozzie to lead Microsoft into this new world of internet services and advertising came last October, when Mr Ozzie, rather than Mr Gates, wrote a lengthy internal memo called “the internet services disruption”. In it, Mr Ozzie politely but ruthlessly analysed how Microsoft had wasted opportunities to come to grips with the new environment, how it was losing ground to rivals (“Google is obviously the most visible here”) and what it would take to avoid disruption. Mr Gates, rather than smarting at the implied criticism, endorsed Mr Ozzie's memo with one of his own. Soon after that, both men stood on stage in San Francisco to launch “Windows Live” and “Office Live”, two free web services that were derided as clumsy, but that are now richer and are meant, eventually, to beat Google and its kind at their own game. That long contest will now be Mr Ozzie's to wage.

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Staffing globalisation

Travelling more lightly

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As companies send more employees abroad, they are offering fewer perks and finding more recruits in developing countries

FEW stereotypes are more enduring than the pampered expatriate, leading a life of luxury to compensate for the hardships of slaving away in foreign climes. Although the end of foreign postings has long been predicted, many companies are sending more people abroad than ever before. But they are trying to keep down the costs of doing so. The traditional business-class expat, usually male and Western, is steadily being replaced by an economy version who may well come from a developing country.

According to a recent study of international assignments by Mercer, a consultancy, 38% of companies surveyed have increased the number of international transfers from headquarters in the last two years. Another 47% are still sending the same number abroad. The biggest increases were among companies (both foreign and indigenous) in Asia and Latin America, regions which are home to a new wave of internationally mobile employees. In addition, 44% of all firms reported an increase in international transfers between places other than headquarters.

These international employees are living in a leaner, meaner era. Staff on foreign assignments have "gone from being special and unique, with piles of money thrown at them, to being an everyday part of the company," says Siobhan Cummins of ORC Worldwide, a research and consulting firm. Finding enough skilled locals to take over from expatriate employees often proves harder than companies thought it would be, which adds to the demand for staff willing to work abroad.

This presents companies with a growing problem: how do you persuade employees to work abroad on leaner terms and with fewer privileges than those offered in the past? Unless someone is being groomed for a job right at the top of the company, the instances of companies dispatching a middle-aged employee and his family to a foreign country for a number of generously rewarded years and then bringing him back to continue his smooth rise up the corporate ladder are dwindling.

Nowadays lots of employees (particularly in the West) simply refuse to go abroad. They may not want to remove children from school; or their partners may be unwilling to sacrifice their own careers. As a result, the sort of people being sent abroad, their pay, benefits and the duration of their tours of foreign duty are changing. So too is the vocabulary: increasingly, companies talk about international "assignees"

or “secondees” rather than expatriates. It all sounds a bit blander, to suit these more straitened times.

HSBC Group illustrates the trends. This giant financial-services firm was founded in 1865, as Hongkong & Shanghai Banking Corporation, by a Scot living in Asia. The firm long epitomised the old-fashioned expatriate model: virtually all its top bosses were drawn from a tight-knit cadre of elite expatriates, known internally as international managers (IMs). Richly rewarded, they spent most of their careers going from one foreign position to another. Even 20 years ago, all of the IMs were men, and all were British (being Scottish was a plus). They did—and still do—carry what a human-resources official at HSBC calls “the DNA of the organisation”.

Yet HSBC's IM programme, which peaked with about 800 expatriates, has now been scaled back. Today the company has about 380 such managers, from 33 nationalities. Half of the latest group to join were women. The change is reflected in the upper rungs of management: today the head of Asia-Pacific operations is Indian.

Although the ranks of IMs have shrunk, there has been a big expansion in other sorts of foreign postings at HSBC, which now has 284,000 employees worldwide. In addition to the IMs, about 1,600 people are on foreign assignments as secondees, “contract executives” and short-term assignees (mostly technical staff). Each group has its own compensation and benefit packages, which are generally less generous than those for IMs.

Companies are trying hard to reduce their reliance on the traditional sort of expats, says Jeff Joerres, the chief executive of Manpower, an international employment firm. This is not only because firms want to avoid the expense of sending people abroad; companies are also increasingly aware, says Mr Joerres, that having locals in top jobs can be a boon in foreign markets. Many expats are charged with finding their replacements as quickly as they can. Promising local candidates are often sent to head office to learn the ropes before returning with the prospect of taking over an expat's job.

Tetra Pak, a packaging firm, is a case in point. It used to send an army of expatriates—once all Swedes—trotting around the globe to open and manage its factories. Now it is encouraging more local executives to step up into important roles. One way it is doing this is to build up talent and experience in local “clusters”. This involves frequent transfers of employees within certain regions, such as Latin America and South-East Asia. The best performers are groomed to move farther afield.

Creative employment

Indeed, the way people move around the world is changing as companies try to come up with more creative ways of staffing their foreign operations, argues Michael Dickmann, of the Cranfield School of Management in Britain. Increasingly, he adds, employees from developing countries are being sent to developed ones rather than the other way around. Well-educated Indians, Chinese, Brazilians or Mexicans—often armed with degrees from foreign universities—are perfect candidates for many European or American firms that want them to gain experience in the head office before they take on greater responsibility in their home markets.

There are, however, risks in doing this. Peter Blake, a consultant with Mercer, says that companies should think carefully about these employees' pay and benefits. If they remain on home-country pay scales or career paths while abroad, they may well be offered, and accept, other jobs with better prospects. Some countries, such as America, have tightened visa requirements to prevent such job switching.

Many companies talk about localisation, but find it difficult to do, for several reasons. Sometimes expatriate managers are unable or unwilling to train their successors. This can be a particular problem for Japanese companies. The standard practice in Japanese multinationals has been to rely on people sent from the home office, even for mid-level technical jobs. In part, this stems from a tradition of apprentice-style training, which can mean Japanese firms “struggle to get new people up to speed quickly,” says Rochelle Kopp, principal of Japan Intercultural Consulting, a training firm. Language is often an added complication in going abroad. A further difficulty is that many Japanese expatriates and their families prefer to stay in America, say, rather than return home. As a result, Japanese employees abroad tend to hand over little responsibility to their local colleagues.

Global-minded Indian companies have a culture all of their own. Take Wipro, a technology, research and

consulting firm that now employs 54,000 people in 35 countries. More than 11,000 of them are outside India, and more than 90% of these are Indian, says Sanjay Joshi, chief executive of global programmes and consulting at Wipro Technologies, the company's international arm. A large portion are middle-level managers.

One of the reasons why Wipro sends so many Indians abroad, he says, is that they are familiar with its intense around-the-clock schedule. “We sprinkle Indians in new markets to help seed and set up the culture and intensity,” says Mr Joshi. International postings also help to spread good business methods across the company and to attract skilled employees. “In the past, India never had world-class brands,” he adds. “Now, a big part of our recruiting is telling people that they will get a chance to work abroad.”

Career advancement can be a powerful inducement to work abroad. HSBC, for instance, is trying to concentrate on “developmental secondment rather than parachuting people into a particular country,” says Barbara Simpson, its head of talent management and international resourcing. In Europe, a growing number of companies now require top executives to have international experience.

Young employees are being tapped more often for foreign postings, not least because the childless tend to be cheap. They have no need of a large home and no offspring to be educated. “The worst groups are those aged around 40,” says Chris Brewster, a consultant and academic at Britain's Henley Management College. At this age, spouses' careers and parenthood can be obstacles to moving. Many firms now look to people aged around 30—or to those over 50, when children may have grown up and partners may be more willing to move. The rule of thumb among Western companies has long been that expatriates with families abroad cost about three times their base salary.

PricewaterhouseCoopers, a global accounting and auditing firm with about 145,000 employees, is among those sending staff abroad at an earlier age. This summer it plans to start a Life Experience Abroad Programme (LEAP), which it calls “a dramatic step up” in its international assignments. LEAP will be aimed at promising workers who have been at the firm for three or four years. They will be sent abroad for several years and will then return for, it is hoped, advancement up the corporate ladder. The goal is to have 5,000 LEAP staff working in 30 countries within a few years. This will roughly double the number of people PWC has in foreign postings today. The ideal candidates, the firm says, are those who show they have an interest in living abroad and who have a flair for foreign languages.

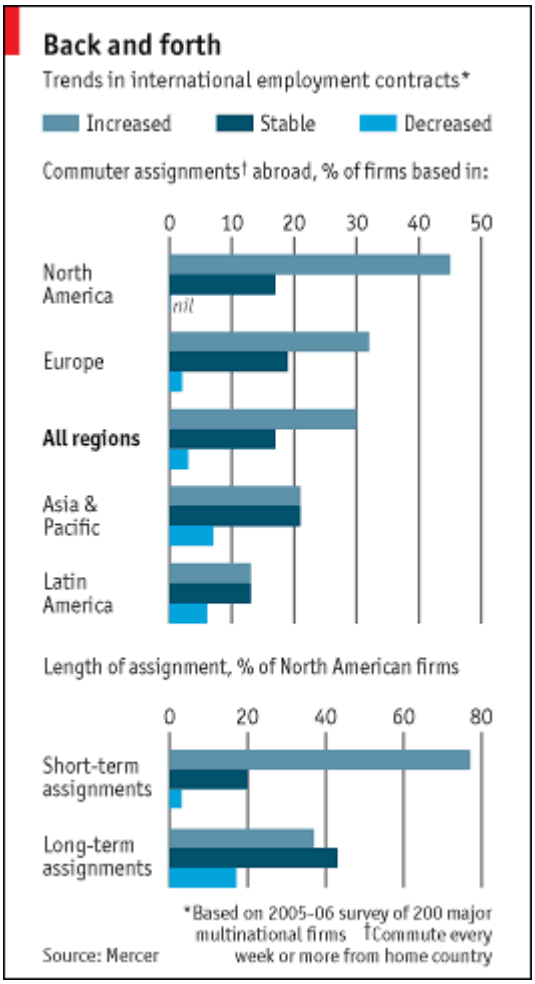
Women are also going abroad more. Mercer found that women account for 13% of expatriate employees at the companies it surveyed, up from 8% five years ago. North American firms report the highest percentage of women working abroad, followed closely by firms in the Asia-Pacific region. In Latin America, 11% of expatriates are female, up from a mere 1% only five years ago. European firms are the laggards: 10% of those working abroad are women. Many multinationals “take women out of the running at an early stage,” says Ms Kopp. “That's a huge mistake. In macho cultures people like women, and they're often more effective.”

The selection of people to work abroad, however, can be fairly arbitrary. Although some big firms do psychoanalytic testing and hold interviews, in most “there's not a lot of science there at all,” says Yvonne Sonsino, a partner at Mercer. “People may just get sent because they're willing to go.” Then again, some employees could be sent abroad just to get them out of the way.

Companies that send families have to consider how to support them. “If the family starts to unravel, the employee will at some time start to unravel too,” says Lesley Lewis, a psychologist who works with expatriate families. Depression and anger among spouses and teenagers is common. A study last year by ORC found that concerns about children and spouses' careers were the two main reasons why employees turned down jobs abroad.

One way that employers are coping with family worries is to offer different types of foreign posting. More people are being sent on short-term, “commuter” assignments where they do not need to uproot their families (see chart). The commuting trend is particularly common in Europe: a banker from Vienna, for instance, may spend Monday to Friday working in Dresden and then fly home at the weekend.

Although salaries paid to those working abroad may have kept pace with inflation, consultants say there are typically fewer allowances offered than in the past. One technique companies use is to remove certain items from cost-of-living adjustments. Another is to reduce benefits and allowances for postings to some places. Henley's Mr Brewster says many companies with operations in Europe now treat the continent as if it were one country. An employee who is being shifted from London to Copenhagen, say, will be treated in the same way as a colleague moving to another office in Britain. Companies are also cutting back on “hardship” allowances for certain posts. Places like Prague or Budapest may have been considered gruelling for Western families 15 years ago, but not now.



Taxing Americans

Wherever they are posted, costs are a particular worry for Americans working abroad, who bear a heavier tax burden than people from most other countries because they are still obliged to pay income tax at home. A recent change in the tax code will mean they must pay even more (see article). In many cases, companies will compensate employees for the extra tax—in effect making it costlier for them to post Americans abroad. The portability of pensions is another growing financial concern for employees who have a spell away from home.

The pressure on pay packets and perks will continue, consultants predict, as skilled employees from developing countries begin to fan out around the world. Already there are signs of this happening in eastern European countries. If someone is willing to work for the same package in Bratislava as in Ljubljana, suggests Mercer's Ms Sonsino, it is likely that in future they will move between continents “without a premium”.

Perhaps the ultimate sign of a harsher environment is an increase in the number of people who finish a tour of duty abroad only to discover that they have no job to return to back at home. It is more common for companies to send people abroad without a guarantee of employment when they come back. Even if promises of jobs are made, mergers and acquisitions often mean that they cannot be kept. Yet despite the uncertainty and cost-cutting, a spell in a foreign land does not have to be miserable. Most people who work in another country do not seem to regret the experience. And that is unlikely to change.

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Taxing Americans abroad

Costing more over there

Jun 22nd 2006 | NEW YORK
From The Economist print edition

A change in the tax code for expatriate Americans

IN ONE area America's sense of self-defeating imperialism is truly evident: taxation. Unlike most developed countries, America taxes the income of its citizens even when they work abroad. This has long discouraged companies from employing Americans internationally, particularly in expensive places. These reservations were compounded last month when the tax on Americans abroad was increased substantially by a provision included by Charles Grassley, a senator from Iowa, in—ironically enough—a $70 billion tax-cut.

The change, optimistically projected to raise $2.1 billion over the next decade, is also politically symbolic: it is the Republican Congress's first renunciation of its widely trumpeted vow to block any increase in personal income taxes. Workers on foreign assignments are apparently not thought to be a particularly threatening lot. Based on tax filings from 2003, the higher taxes will affect 300,000 people, although future tweaks could ensnare many more. The increase to what is formally known as Section 911 of the tax code was buried in the broader tax-cut legislation at the last moment, and thus circumvented debate in Congress. It is only now becoming widely known.

“This is a self-destructive policy that kills jobs, reduces exports and raises taxes on hardworking Americans,” says Newt Gingrich, who once led Republicans in the House of Representatives. Angry faxes are being sent to politicians and a bill to reverse the change is being introduced, but is unlikely to succeed.

Hardest hit are those in the Middle East and Asia, where living costs can be high. Companies typically offset these with various subsidies, but now these subsidies—particularly for housing—face higher taxes as well. The tax increase will hit not only the classic expat working for a multinational company but also those of more modest means, including teachers. Small firms could face particular problems because they can find it hard to hire talented locals and many rely on sending people abroad.

Employers will pay some of these increases; but many firms will face a choice—increase salaries or send fewer Americans abroad. A more difficult question is whether this has an economic impact on America.

In 1980 Chase Econometrics reckoned a 10% decline in Americans working abroad corresponded to a 5% drop in exports. A more sophisticated economic model developed by John Mutti, an economics professor at Grinnell College, reckoned that each 1% increase in compensation costs reduced demand for Americans employed abroad by 0.4% and exports by 0.3%. PricewaterhouseCoopers estimates the cost of a slightly more restrictive tax at 24,000 domestic jobs; scrapping America's extraterritorial tax system would create 137,000.

To be fair, Americans working in foreign countries can deduct $82,000 in salary and allowances from their American tax bill, but foreign taxes still apply. The tax deduction is most beneficial in economically depressed countries which are not of great interest to businesses. American companies say it has become increasingly hard to convince their employees that moving abroad to work in a rapidly growing market is financially worthwhile. Which means more will stay at home.

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American inflation

Feeling the heat

Jun 22nd 2006 | WASHINGTON, DC
From The Economist print edition

Ronald Grant Archive

America's Federal Reserve gets a touch of the vapours

CENTRAL bankers are supposed to be calm, even a little boring. But the governors of America's Federal Reserve seem to have been seized by a sudden panic about inflation. Virtually every Fed official has been worrying aloud about rising prices. Ben Bernanke, the Fed's chairman, warned about “unwelcome” inflation on June 5th. Since then his colleagues have declared it to be “troubling”, beyond their “comfort level” and even “corrosive”.

This hawkish talk has not been lost on financial markets, which now take for granted that the federal funds rate will be pushed up by a quarter of a percentage point, to 5.25%, at the end of the central bankers' next meeting on June 28th and 29th. Judging by the price of futures contracts, markets see a better than even chance of another quarter-point rise in August. Several forecasters believe that short-term rates will reach 6% by early 2007.

Less than two months ago, Wall Street was worried that Mr Bernanke's Fed would be too soft on inflation. Now the opposite fear has taken hold. A rising chorus wails that Fed officials have become obsessed with monthly inflation figures and that their fixation will cause them to push interest rates too high and tip the economy into recession. David Rosenberg, chief economist at Merrill Lynch, puts the odds of a recession in 2007 above 40%.

The idea that the Fed worries too much about inflation comes from several quarters. Statistical boffins point out that recent jumps in consumer prices are due to an acceleration in the imputed cost of home ownership, an artificial figure that is calculated from rental prices. Since nobody pays this price, the argument goes, the inflation it causes should be discounted. Other economists reckon that with productivity high and wages muted, a pernicious wage-price spiral of the kind that lay behind soaring inflation in the 1970s is unlikely. Higher energy prices may temporarily push up inflation, but with labour costs so low, this one-off rise cannot last.

These critics make some good points. The central bankers have clearly been spooked by the recent jump

in the “core” consumer price index (CPI). The core measure excludes the volatile prices of energy and food. Over the past three months this index has risen at an annual rate of 3.8%, the fastest in more than a decade.

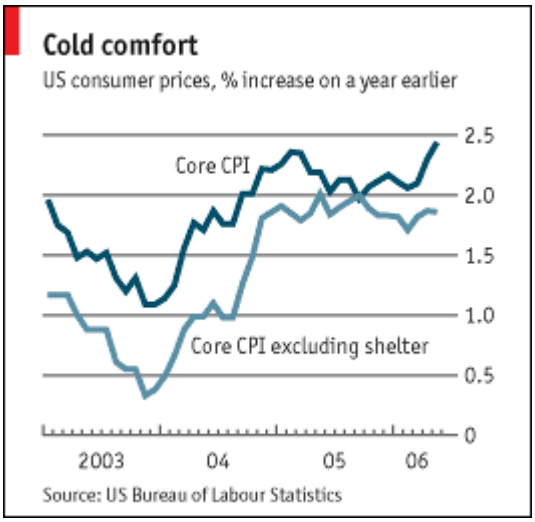
But much of that jump is thanks to a sharp rise in the cost of housing (which makes up almost 40% of core CPI), particularly the category of “owners' equivalent rent” which estimates the cost of living in a house by looking at rents charged on similar properties. Although this measure makes sense in theory (by living in your house you forgo rental income), it may now be overstating inflationary pressure.

As the housing market has slowed, fewer people are buying property, choosing to rent instead. That has pushed up rents. In turn, owners' equivalent rent has risen too, even though homeowners have seen no change in the actual costs of owning their house. Because owners' equivalent rent is estimated net of utility prices, recent falls in gas and electricity bills have paradoxically made matters worse.

Statistical quirks, in short, are distorting the picture. But what should central bankers do about it? Some suggest that owners' equivalent rent should simply be dropped from the inflation index. That is what European statisticians have done. But credible central bankers cannot suddenly ignore an inflation component when it starts behaving in ways they do not like. That was the mistake made in the 1970s, when officials deluded themselves that inflation was under control by excluding ever more prices from their indices.

The bigger point is that even if you take out housing costs the recent acceleration in core consumer prices does not disappear (see chart). And a variety of other gauges suggest that underlying inflation is on the high side and rising. The deflator for core personal-consumption expenditure (PCE), Fed officials' favoured index, was up 2.1% in the year to April. The “trimmed-mean PCE deflator”, calculated by the Dallas Fed, which excludes those prices that have risen and fallen the most before taking a weighted average of the rest, is up 2.4%. The “median consumer-price index”, calculated by the Cleveland Fed, is up 3%. Look at these figures and the surprise is less that the central bankers are now so jumpy about inflation than that they sounded so sanguine earlier this year.

One reason is that Fed officials, as much as their sceptics, were comforted by the lack of wage pressure. Thanks to strong productivity growth and fairly modest pay rises, the cost of workers relative to their output has slowed, rising only 0.3% over the past year, even as the jobless rate has fallen to 4.6%. It is hard to see how prices could spiral out of control while labour costs remain so subdued.



So why are the central bankers suddenly worried now? One explanation is that other determinants of short-term inflation, particularly inflation expectations, have been flashing. Survey-based estimates of consumers' inflation expectations have all risen since last year. The hawkish talk was doubtless designed to put a lid on them and put paid to the idea that the Bernanke Fed was a soft touch.

A rational phobia

Some central bankers are also wary of the most popular explanation for tepid wage growth, namely that the integration of China and India into the world economy has put pressure on workers elsewhere. In recent speeches, both Don Kohn, the Fed's vice-chairman, and Janet Yellen, president of the San Francisco Fed, argued that globalisation had had only a modest effect on American inflation. Much of China's price-dampening impact might prove temporary (see article). Both pointed out that if globalisation had made America's inflation rate less sensitive to conditions at home, then it also made policy mistakes more costly. Once inflation gets out of control it will be harder to wring out of the system.

These are all fair points and, on balance, the central bankers' concern about inflation seems prudent more than phobic. After all, monetary policy is still not restrictive. Interest rates are only just positive in real terms. And although growth is slowing, there is little sign that the economy has stalled.

The problem is that the Fed's stern talk may backfire. The statistical nuances of owners' equivalent rent suggest that core inflation may rise further and will remain above Mr Bernanke's boundaries for the rest of the year, even as the economy slows. If they are to avoid pushing up interest rates too far, Fed officials may soon have to explain why figures they now regard as “troubling” and “corrosive” are not so worrying after all. That task would be easier if their rhetoric had been more boring in the first place.

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China's economy

Exercising its pricing power

Jun 22nd 2006 | HONG KONG
From The Economist print edition

Is the world's greatest price buster in danger of exporting inflation?

Get article background

SCORCHING; blistering; red hot. Chinese growth, which has been such a source of support for the world economy in recent years, is now often described as if it were something painful. For the second year in a row, the mainland's economy is expanding at a pace that looks too quick for comfort.

In the first quarter of this year GDP was 10.3% greater than a year before; the broad money supply grew by 19% in the 12 months to the end of May; and domestic bank lending jumped by four-fifths in the first five months of 2006, compared with the same period in 2005. All this liquidity is fuelling a frothy investment boom: fixed asset investment is rising at an annual rate of 30%, almost twice the official target. Exports, too, are surging, bolstering China's foreign-exchange reserves, which at almost $1 trillion are now the world's largest. Much of that money seeps back into the economy, further oiling the expansion.

The Chinese authorities are attempting to control this boom with exactly the same tools as they used in 2004: administrative controls to curb excessive investment in specific industries, overlaid with a sporadic tightening of monetary policy. Spending restrictions have already been tightened in industries such as aluminium, steel and cement. And last week Wen Jiabao, the prime minister, warned local governments and banks to stop financing so many construction projects. On June 16th the central bank, having raised its lending rates by 0.27 percentage points in April, demanded that commercial banks increase the ratio of reserves they deposit in its vaults by half a percentage point. Jun Ma, an economist at Deutsche Bank, expects policy to be tightened further, possibly through another rise in interest rates, in coming months.

Would that be enough? The measured response of the authorities two years ago was hailed as a success at the time. With hindsight, it appears too lax, given that the same problems have resurfaced so rapidly. Stephen Roach, chief global economist at Morgan Stanley, argues that China's economy is now simply too large—having grown so rapidly in the past couple of years—for microeconomic measures such as investment restrictions in specific industries to work. Instead, the authorities should use the macroeconomic levers at their disposal to slow growth, possibly by tightening fiscal policy or by allowing the yuan to strengthen. The Communist Party's fear of undermining its hard-won legitimacy by choking off growth is understandable. Yet unless it avoids what Mr Roach calls “the pitfalls of incrementalism”, the likelier it is that China's economy will face a hard landing in the future.

China's excessive growth is not only of domestic concern. With much of the world increasingly worried about inflation, questions arise about what an overheating Chinese economy could do to global prices. It seems strange to worry about China exporting inflation—as Mervyn King, governor of the Bank of England, did recently—when the country's consumer-price inflation is less than 1.5% and its vast manufacturing (over)capacity has led to a steady drop in global goods prices from shoes to electronics. For the past few years, China's deflationary impact on manufactured goods—known as the “China price”—has outweighed its inflationary effect on commodities and capital goods.

But that balance may be changing, argues Jonathan Anderson, an economist at UBS in Hong Kong. “Current data [in China] show that we are on the verge of an inflationary correction that will have a cyclical impact at home and abroad,” he says. After being squeezed between rising input costs and falling factory-gate prices, China's manufacturers are starting to raise prices to rebuild margins—and getting away with it because both domestic demand and exports are still far stronger than they were two years ago. Add in higher domestic food and energy prices and surging labour costs, and the China price may

soon be a good deal higher.

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Short selling

Betting on losers

Jun 22nd 2006 | NEW YORK
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The furore over naked shorts

OFTEN it is a lame excuse, but companies with falling share prices sometimes seek to blame short sellers—those who borrow shares and sell them in the hope of buying them back later at a lower price and pocketing the difference. Short sellers are rarely the mischiefmakers they are portrayed to be. What they do is legal and can improve liquidity in share transactions. It is more questionable when a trader sells a stock short without even taking the trouble to borrow it or make sure it can be borrowed. Such trades are called naked shorts and are the object of a new crop of lawsuits. Sometimes they can disrupt the smooth flow of markets. The main risk is that when the time comes for the short seller to deliver shares, he cannot come up with the goods. In the lingo, that is known as a "fail-to-deliver".

No shorts on them

Campaigners against naked shorts claim that the practice lets unscrupulous speculators sell short an unlimited amount of shares. "The share prices—and prospects—of these young companies are being decimated," complains Wes Christian, a partner at Christian, Smith & Jewell, one of the law firms representing firms that feel they have been stung.

Congress has taken heed. The Senate Judiciary Committee has scheduled a hearing this week to scrutinise short selling in general, including naked shorting. The New York Stock Exchange is reportedly investigating whether traders used naked shorts to drive down the price of Vonage, an internet-telephony, in its initial public offering in May. The governor of Utah has signed into law a bill cracking down on naked shorting.

For all the fuss, not all naked shorting is against the rules. Marketmakers, who are responsible for providing liquidity in trading situations, must often take naked short positions when there is more demand for a stock than supply. Naked shorting can cross the line, however, if a trader does not intend to borrow shares to settle the trade.

That often happens, says Robert Shapiro, a former Clinton administration official who is now a consultant for Mr Christian and other campaigners. He reckons that over a tenth of the stocks listed on the New York Stock Exchange and NASDAQ have a fail-to-deliver at least two months old. Regulators dispute these figures. In January 2005 the Securities and Exchange Commission (SEC) introduced rules aimed at reducing the number. They require traders to locate a source of shares before they can short them. They also force brokers to buy shares and complete unsettled trades in companies that have had a high level of fails-to-deliver for a long time. Since the rules were adopted, the SEC says, fails have fallen by 35%.

Only 1% of the dollar volume of listed shares are fails.

Critics of naked shorting are not mollified. The Utah law requires brokers to report fails-to-deliver within one day, as well as the identity of buyers and sellers, the price of trades and the like—or face fines starting at $10,000 a day. Not coincidentally, perhaps, Utah is home to an online retailer led by Patrick Byrne, one of the most vocal critics of short selling. Mr Byrne has started a lawsuit accusing hedge funds of colluding to drive down the company's share price. Aptly, his company is called Overstock.com.

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Exchanges

Thinly spread

Jun 22nd 2006 | FRANKFURT
From The Economist print edition

Deutsche Börse's overtures to Euronext raise hackles in Germany

A THREAT this week by the economics ministry of the German state of Hesse shows that financial exchanges remain political footballs. That is despite the metamorphosis of many into for-profit companies keen to consolidate across national and even continental boundaries. The ministry said that, *in extremis*, it may withdraw Deutsche Börse's licence to operate the Frankfurt Stock Exchange, which it supervises. It is afraid that Deutsche Börse's latest bid for Euronext, its pan-European rival, makes concessions that would damage Frankfurt as a financial centre.

Euronext, a fusion of four national stock exchanges and Euronext.liffe, a futures business in London, is anyway set on a merger with the New York Stock Exchange (NYSE). With customary disdain, it rejected Deutsche Börse's latest list of concessions as “nothing new”.

The German exchange operator insists that its new offer is based on consultations with users and shareholders, whom even Euronext cannot afford to ignore. French politicians and Jean-Claude Trichet, the French head of the European Central Bank, have also spoken in favour of a European rather than a transatlantic solution. Euronext has promised to put its merger plans with the NYSE to a shareholder vote.

Deutsche Börse's renewed proposal offers to delegate more power outside Frankfurt, with a holding company in Amsterdam, risk control in Paris, and dual locations to manage information technology and derivatives trading. The chief executive and chief financial officer would still be in Frankfurt. But what has irked German politicians and labour representatives most is the offer to sacrifice Frankfurt's Xetra automated share-trading system in favour of Euronext's NSC platform, at the cost of local jobs and prestige.

It seems that Deutsche Börse has gone as far as it can, apart from perhaps sweetening the value of its bid. It has little reason to go further. It is highly successful as a stand-alone bourse. Its future growth lies with its derivatives business rather than cash equities; the same goes for any exchange lucky enough to be in derivatives.

Revenues from derivatives exchanges far exceed those from the cash markets (see chart). It is therefore plain why Euronext.liffe and Eurex, a futures exchange Deutsche Börse co-owns with SWX Swiss Exchange, are such desirable merger partners, but also perhaps why they do not need each other: both are likely to continue growing. Economies of scale for users, who would have to post collateral with only one exchange rather than two, are more likely to be achieved with a transatlantic link. This is something which Eurex tried but failed to do with its American outpost, Eurex US. The logic is still there. Euronext and NYSE may be able to offer clearing of Euronext.liffe products across the Atlantic, but that is not part of their merger plans as they stand.

With such complexities to mull over, all the political flak and wrangles over which regulator oversees what, the consolidators will be lucky to see a deal this side of Christmas, say veterans of previous merger attempts. Borsa Italiana, a smaller exchange, may provide an exception. Talks

continued this week about its possible attachment to Euronext's “Lego”.

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Private equity

Seeking an exit

Jun 22nd 2006
From The Economist print edition

A golden era for buy-out funds may be drawing to an end

PRIVATE-EQUITY firms have been enjoying heady times. Their funds have been making eye-popping returns, deals have kept getting bigger and investors have poured in buckets of money. Yet there is a growing sense among fund managers that the bountiful era is drawing to a close. Competition is up, market conditions are less favourable, investors are more demanding and regulators are watching the industry closely.

Given the strong showing in recent years, “it would be impossible to expect similar levels of return over the next five-year period,” says John Barber, head of private equity for Citibank Alternative Investments. Thomson Financial's American private-equity index rose by 22.6% in 2005, compared with a 7.1% return in Greenwich-Van's American hedge-fund barometer. But those super returns were based on ideal conditions: a strong economy, low interest rates and rising stockmarkets in which to sell their investments.

Now, with interest rates up and stockmarkets down, the outlook is different. There are worries about rising debt levels at some private-equity firms, driven, in part, by high-risk loans from hedge funds. “Deals have been good due to the gap between the borrowing cost and the yield,” says Nicholas Ferguson, chairman of SVG Capital, which invests in private-equity funds. But “the gap is narrowing”. As a result, he adds, there is “a squeeze” coming on pricing. A growing number of fund managers suggest it is a good time for funds to sell some of their holdings through routes other than the stockmarket.

The shift in sentiment has accelerated in recent months. Kohlberg Kravis Roberts (KKR) was successful with its $5 billion fund flotation (a first) near the stockmarket peak earlier this year. But when Apollo Management tried a similar offering more recently, it struggled to raise $1.5 billion, reportedly well short of what it had hoped. Since then, some of the biggest names in the field—Blackstone, Carlyle and Texas Pacific Group among them—have reconsidered floating their own funds.

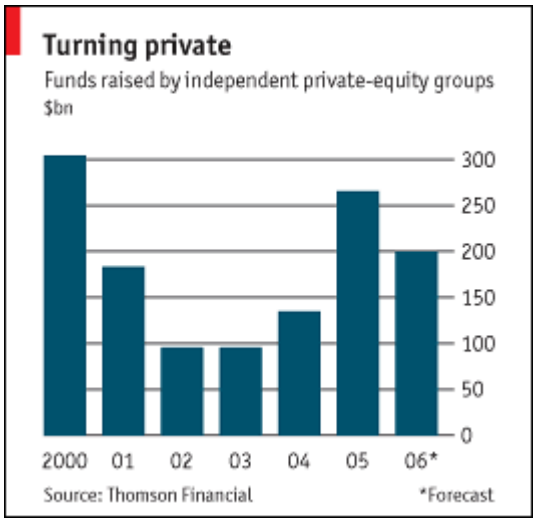
The pullback may be due to more than a falling stockmarket. “The drivers of demand are hedge funds,” says one private-equity manager. “Now they've got a KKR-type offering in their portfolio.” He means that other firms must offer something different if they want hedge-fund money.

Total private-equity fund raising remains strong, says David Bernard of Thomson Financial, a financial-information firm (see chart). Given last year's near-record levels—especially in Europe, where seven of the biggest funds ever closed last year—he says that a slowdown might have been expected this year. “In fact, private-equity funds are on track to raise over $200 billion in 2006 globally.”

A recent poll of 108 private-equity investors around the world published by Coller Capital, a research and investment firm, found that 48% planned to increase their investments in the next year. At the same time, investors are becoming more demanding. Limited partners are “less patient with general partners who don't perform,” says one fund manager. General partners “are either feted or shunned” when they come to raise money.

One of the most important tasks facing the industry is to broaden its investor base beyond the traditional group of limited partners. A report published this week on the world's wealthiest

people by Capgemini, a consultancy, and Merrill Lynch, an investment bank, shows that unlike hedge funds, which have levelled off in the portfolios of the super-rich, private equity is drawing increased investment from this group, which puts 20% of its money into alternative assets. Investment banks and funds-of-funds are eager to tap this vein. Lehman Brothers, for instance, recently unveiled plans for a new fund that will allow individual investors to put money into alternative investments.



Competition in the market is rising, both from other private-equity funds and from corporate buyers, which because of rising interest rates may beat heavily indebted private-equity funds on more deals. Private-equity firms are increasingly trying to differentiate their strategies, either by geography or industry.

In these uncertain times, one of the questions facing even the big players is what the market will look like in three or four years, when their funds mature. As for the present, says one fund manager, “this is a great time to be exiting.”

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World trade

Doha's last stand

Jun 22nd 2006 | WASHINGTON, DC
From The Economist print edition

Critical days for the global trade talks

“WE'RE committed to a successful round. And it's going to take hard work.” George Bush's comment this week on the Doha round of global trade talks sums up the official line in most capitals. Of course Doha must succeed, goes the mantra; yes, it will be a hard slog.

The next few weeks will determine whether this mantra means anything. Trade ministers gather in Geneva on June 29th for a last-ditch attempt to agree on a “framework” for freeing trade in farm and industrial goods. Negotiators have been haggling over such a framework, which will define just how tariffs and subsidies are to be cut, for more than four years. They have set themselves—and missed—endless deadlines.

So why expect a breakthrough now? The only reason for hope is that all sides may finally realise that they can procrastinate no more. Most trade talks drag on for years. The Doha round cannot, because Mr Bush's fast-track negotiating authority, which prevents a trade deal being unpicked by Congress, expires in June 2007. To meet that deadline, an agreement must be reached by the end of the year; its broad outlines need to be in place before negotiators pack up for the summer (note that no one has suggested cancelling any holidays).

The trouble is that the important parties are still miles apart. The path to a deal is no secret. The European Union must offer bigger cuts in farm tariffs; America must promise to slash subsidies more; and big emerging economies must reduce their industrial tariffs. No one has yet offered anything new, but there are rumours that America will offer bigger cuts in subsidies in Geneva next week.

Less noticed but equally worrying are chasms between other countries. Among emerging economies, for instance, there is a big row about how much special treatment to demand for farm tariffs. Countries such as India and Indonesia want lots of exceptions for their farm goods. Others, such as Thailand and Argentina, want far fewer.

In all, the latest draft agreement on farm trade has around 700 pairs of square brackets on language where there is still disagreement. Unresolved issues abound. Add in the World Cup and the lure of the beach in August, and you have to be starry-eyed to give the Doha round much of a chance.

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Investment banking

Addicted to a pinstriped suit

Jun 22nd 2006 | LONDON AND NEW YORK
From The Economist print edition

Old bankers do not die; they just start new firms.

FOR a business where brand names are said to mean everything, investment banking is surprisingly open to new entrants—provided they are packed with people who have been around for ever. Greenhill & Co, run by a former senior executive of Morgan Stanley and Citigroup, is making pots of money, as is Evercore Partners, founded by a former luminary of Lehman Brothers and Blackstone, as is, well, the list goes on.

The newest—and biggest—fish in the pond, since it opened on June 15th, is Perella Weinberg Partners, a firm whose 12 partners played large roles in Morgan Stanley, Goldman Sachs, Merrill Lynch and even First Boston in its heyday. Led by Joseph Perella, who has gone the independent route before when setting up Wasserstein Perella in the 1980s, they make no bones about what they believe are their relative advantages. “There's no team, except perhaps that of Mr Morgan and Mr Stanley in 1935, that started out with this level of talent,” boasts Terry Meguid, one of the partners.

Surely there will come a time when bankers are so common that no one will tolerate such hubris—or, for that matter, any more banking firms. But Perella Weinberg appears to be betting that moment is still some way off. After almost a year of preliminary work, it has set up temporary offices in space rented from law firms in New York and London, built a full support staff, and, most importantly, raised over $1 billion in capital.

It is almost certain that each of the partners is already quite rich, and they are at an age—late 40s and above—that is ancient for the profession. But Mr Weinberg notes that he is back to waking up at 4am to get a head start on business and, conveniently, to have an initial discussion with another partner, Mr Meguid, who has been working all night. For whatever reason, such investment-banking boutiques appeal to people who can never put enough time into their jobs.

Initially, Perella Weinberg will focus on providing corporate advice. As the large investment banks have grown ever bigger, companies have found it harder to get the undivided attention of their most senior executives. Mr Perella and Mr Weinberg promise they will use a non-bureaucratic form of management and consequently will always be available for client work. The big firms do some activities particularly well, such as trading, underwriting, and designing financial products like derivatives. Perella Weinberg will not compete for that business.

But the broad scope of big banks inevitably produces conflicts of interest, particularly over private-equity operations, in which some invest directly. With buy-outs accounting for a third of all acquisitions, Perella Weinberg believes there is terrific scope for a disinterested adviser who will not profit from the other side of the deal.

There will be some areas of intense competition. Major investment banks have become superb at sending armies of bankers out to call on any company with an economic pulse. A small firm cannot do this. But of all the start-up boutiques, Perella Weinberg may have, as it is the first to say, a superior set of contacts, largely because its partners have a particularly broad range of experience. It is a quirk of banking that many clients do not want typical advice, such as how much to pay for an acquisition, but prefer to pay instead for access to someone critical for a deal. Along with the advisory business, Perella Weinberg intends to begin an investment business as well, probably linked to hedge funds. It is not an area in which many of the partners have worked. But the firm believes it can take over the administrative chores, such as raising capital, for investors who want to manage money, but not an investment business.

Mr Perella's first boutique, set up with Bruce Wasserstein, another prominent banker, took just one week to get started. This time, putting everything together took almost a year. In the end, whether the firm succeeds may have less to do with strategy than with personalities. Before Perella Weinberg opened its doors it had suffered one defection, from John Anda, who came with Mr Perella from Morgan Stanley then chose to return. (He will have been delighted that on June 21st Morgan Stanley said its second-quarter profits had doubled.) Creating a partnership is not easy. So far, however, the only thing these partners have failed at is retirement.

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About sponsorship

Economics focus

The euro and trade

Jun 22nd 2006
From The Economist print edition

The supposed benefits of monetary union are cut down to size

IN THE continuing controversies about Europe's bold experiment in monetary union, there has at least been some agreement about where the costs and benefits lie. The costs are macroeconomic, caused by forgoing the right to set interest rates to suit the specific economic conditions of a member state. The benefits are microeconomic, consisting of potential gains in trade and growth as the costs of changing currencies and exchange-rate uncertainty are removed.

In 2003, for example, Britain's Treasury ruled out membership because the country's economy had not yet converged sufficiently with that of the euro area to be able to live with interest rates set in Frankfurt. But it tossed a juicy bone to disappointed euro-enthusiasts with some salivating figures for possible gains in trade and growth from joining the club. In rather than out, Britain could enjoy a rise in trade with the euro area over 30 years of up to 50%, which would boost living standards by up to 9%.

A new study* by Richard Baldwin, a trade economist at the Graduate Institute of International Studies in Geneva, scythes through these and earlier, even higher, estimates. He works out that the boost to trade within the euro area from the single currency is much smaller: between 5% and 15%, with a best estimate of 9%. Furthermore, the gain does not build up over time but has already occurred. And the three European Union countries that stayed out—Britain, Sweden and Denmark—have gained almost as much as founder members, since the single currency has raised their exports to the euro zone by 7%.

Interest in the potential trade gains from the euro was primed six years ago by a startling result from research into previous currency unions. In 2000 Andrew Rose, an economist at the University of California, Berkeley, reported that sharing a currency boosts trade by 235%. Such a number looked too big to be true. It clashed with earlier research that found exchange-rate volatility reduced trade only marginally. The dissolution in 1979 of the currency union between the Irish Republic and Britain seemed to have had no significant effect on their bilateral trade.

Despite such worries, researchers continued to find large trade effects from currency unions. Mr Baldwin explains why these estimates are unreliable. The main problem is that most of the countries involved are an odd bunch of small, poor economies that are in unions because of former colonial arrangements. Such is their diversity that it is impossible to model the full range of possible influences on their trade. But if some of the omitted factors are correlated with membership of a monetary union, the estimate of its impact on trade is exaggerated. And causality is also likely to run the other way: small, open economies, which would in any case trade heavily, are especially likely to share a currency. Much of the trade effect of monetary unions comes from a collapse in exports and imports when they dissolve. However, this can be caused by the imposition of tariffs by newly independent countries, civil disruption or war.

A new theory is planted

The intractable difficulties in working out the trade effect from previous currency unions means that previous estimates are fatally flawed. But the euro has now been in existence since the start of 1999, with notes and coins circulating since January 2002, so there is an increasing body of evidence based on its experience. That has certainly highlighted the macroeconomic disadvantages for its 12 member states. The loss of monetary sovereignty has hobbled first Germany and, more recently, Italy.

Despite these drawbacks, some studies have pointed to a substantial increase in trade within the euro area arising from monetary union, for example by 20-25% in the first four years. As with the previous currency unions, however, many other explanatory influences might have come into play. Fortunately, unlike those earlier unions, there is a “control” group: the three countries that stayed out. This is particularly useful because they have shared other relevant aspects of membership of the EU, such as trade policy. It is on the basis of this that Mr Baldwin reaches his best estimate of a 9% increase in trade within the euro area because of monetary union.

As important, he establishes that the boost to trade did not occur, as expected, by lowering the transaction costs for trade within the euro area. Had it done so, the stimulus would have been a fall in the prices of goods traded between euro-zone members relative to those traded with countries outside the currency union. However, Mr Baldwin fails to find either this expected relative decline or the trade diversion it would have generated from the three countries that stayed out. He argues that another mechanism was at work. The introduction of the euro has in effect brought down the fixed cost of trading in the euro area. This has made it possible for companies selling products to just a few of the 12 member states to expand their market across more or all of them. This explains why the boost to trade has essentially been a one-off adjustment; and why countries that stayed out have benefited almost as much as those that joined.

The case for Britain adopting the euro is thus even weaker than was once thought. But there is also an important lesson for the 12 members of the euro area. Even if their economies were insufficiently aligned to be best suited for a currency union, one hope has been that the euro would make them converge as they trade much more intensively with one another. The message from Mr Baldwin's report is that this is too optimistic. Countries in the euro area will have to undertake more reforms, such as making their labour markets more flexible, if they are to make the best of life with a single monetary policy.

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*“In or Out: Does it Matter? An Evidence-based Analysis of the Trade Effects of the Euro”, Centre for Economic Policy Research.

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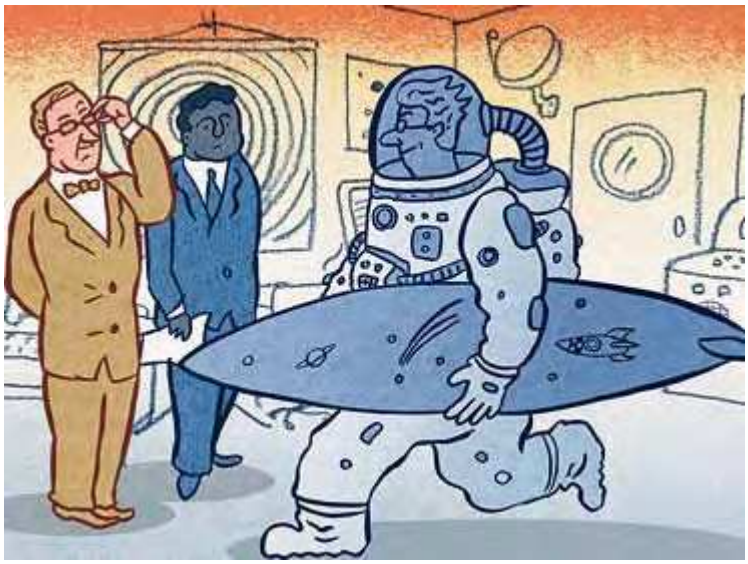
Fundamental physics

To catch a gravitational wave

Jun 22nd 2006
From The Economist print edition

Physicists hope to find a new astronomy and test some wacky ideas



SCIENTISTS trying to detect gravitational waves—ripples in the fabric of space-time—are a reticent lot. Understandably so: in the late 1960s Joseph Weber, a pioneer of the field, declared that he had found them when he had not, and mouths have been kept firmly shut ever since. Nearly 40 years on, researchers around the world are still straining to see gravitational waves, so far without success. This week scientists met to discuss plans for a more sensitive detector that could be built in space.

Gravitational waves were predicted by Einstein's general theory of relativity in 1916. This theory views gravity not as a force but as a consequence of the curved geometry of space and time. Space-time, as it is known, has four dimensions: the three familiar spatial ones of length, breadth and height, and time.

Space-time can be distorted or curved by the presence of massive objects, such as stars. Temporary ripples in space-time are caused when such objects accelerate. The ripples are gravitational waves. They are very weak but, if the accelerating object has enough mass, it should be possible to spot them. The waves that emanate from the collision of two black holes should be detectable. So should echoes from the Big Bang with which the universe is believed to have begun. And whereas microwaves, radio waves and light—all forms of electromagnetic radiation—are easily absorbed by dust and gas, leaving much of the universe hidden, gravitational waves penetrate anything in their path. Finding them could thus offer astronomers new tools for studying the universe.

Setting traps

Today's attempts to detect gravitational waves use instruments called interferometers. These exploit the fact that gravitational waves should cause space to stretch in one direction and shrink in the dimension at right angles to it. The instruments consist of two tubes arranged in an L-shape. A laser beam is split and one half is sent down each tube, bouncing off a mirror at the end. The two parts are arranged so that when they return to the beam-splitter, the peaks of one wave are in step with the troughs of the other. They therefore cancel each other out, leaving darkness. A passing gravitational wave would stretch one

tube and shrink the other, disturbing the neat alignment of peaks and troughs, and creating light.

A couple of interferometer-based experiments are under way. Others are due to start within a year. The information they yield will be combined and analysed by scientists involved in all the experiments. For a gravitational wave to be unambiguously identified, it must be detected by more than one instrument.

The biggest experiment, with arms up to four kilometres (about two and a half miles) long, is called the Laser Interferometer Gravitational Wave Observatory, or LIGO. It has been collecting data for the past seven months. It has three machines, one near Livingston, Louisiana, and two at Hanford in Washington state. A smaller, German-British experiment called GEO600 (because the interferometer arms are 600 metres long) started taking scientifically useful data in Hanover last month. These will be joined by Virgo, a collaboration between Italian and French researchers with three-kilometre arms, which is being built near Pisa. Another interferometer with arms of the same length is under construction at Kamioka in Japan.

Unfortunately, a passing gravitational wave will make only a tiny change in the distance the laser beams have to travel. Even if experimenters bounce the beams to and fro to increase the effective length of an interferometer's arms to more than 100 kilometres, the expected difference in length between the two beams' paths still amounts to less than a hundred-millionth of the diameter of a hydrogen atom.

Scientists are trying ever more clever ways to sense this change: new materials have allowed GEO600's mirrors to be better isolated from the world outside, making it as sensitive as the longer-armed LIGO. The interferometer in Japan is being built underground and will be kept at extremely low temperatures to minimise stray vibrations. There are also plans to refine existing experiments.

Ultimately, however, the answer may be to conduct the experiments in space. There, the length of the arms could be truly enormous. In fact, they would not even have to be built; the devices at their ends are all that would be needed. The American space agency, NASA, and the European Space Agency are collaborating on plans for an experiment in space in which the contraptions that would be used instead of mirrors would be 5m kilometres apart. At a meeting at the Goddard Space Flight Centre in Maryland this week, scientists outlined what this could achieve.

The putative device—called the Laser Interferometer Space Antenna, or LISA—would not merely detect gravitational waves; it could identify their sources precisely, in the same way that an optical telescope identifies pricks of light as stars. Any object of sufficient mass, no matter how exotic, could be studied in detail.

For example, neutron stars—the extraordinarily dense remnants of stars that have exploded as supernovae—often have nearby partners that orbit one another. Strong gravitational waves are thought to be produced by the collision of two neutron stars. Indeed, in 1974 Russell Hulse and Joseph Taylor recorded an indirect sighting when they showed that a pair of stars spiralling towards each other was radiating energy in the form of gravitational waves at exactly the rate predicted by Einstein. That won them a Nobel prize. However, LISA would be able to see gravitational waves directly, and from them identify the prevalence and whereabouts of pairs of neutron stars in the universe.

The coalescence of two black holes would create even stronger gravitational waves, but physicists believe that there are fewer black holes than neutron stars, so such events would be rarer. With LISA, they would be able to find out whether all this is true. Other envisaged sources are supernovae and rapidly rotating isolated neutron stars. The early universe is also thought to have produced a background of gravitational waves from quantum fluctuations. Again, LISA would be able to examine such phenomena.

Fundamental tests

Indeed, LISA could do more. It could allow scientists to examine the validity of string theory, which says that there are more than four dimensions to space-time and that the extra dimensions are hidden. String theory has come under fire because its predictions have so far proved untestable. The normal version has it that these dimensions are curled up in strings that are smaller than the known elementary particles. However, in some versions strings form very long “superstrings” that stretch across the universe. These superstrings form loops and vibrate, radiating gravitational waves; they can also crack like whips, sending bursts of gravitational waves towards Earth. “Seeing direct evidence of strings would be as important as discovering that the world is made of atoms,” claims Craig Hogan, an astronomer at the

University of Washington, who is a member of the international science team for LISA.

Whether gravitational wave scientists will have to stay tight-lipped for long remains to be seen. Back in August 2004, Ladbrokes, a British bookmaker, offered odds of 500 to one against gravitational waves being detected by 2010. After taking a flurry of bets, it slashed the odds to 100 to one and then two to one in just a few weeks before closing the book. The bookies must be hoping that gravitational-wave scientists find no reason to end the reticence of the past four decades.

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Agriculture

Seeds of hope

Jun 22nd 2006
From The Economist print edition

An international seed bank is being set up in the Arctic

IF CATASTROPHE were to befall humanity—be it plague, nuclear war or an asteroid striking the Earth—what provision could be made for the survivors? This week work began on a project to re-establish agriculture should such a calamity occur. On a remote Arctic island, a vault is being dug to house the seeds of up to 3m different crops, as part of plans to protect food supplies across the world.

The Svalbard International Seed Vault, as the facility is called, will cost the Norwegian government, which is paying for it, about $3m. Eventually it will contain samples of every known crop variety that can be grown from seed, from the tropics to the highest latitudes.

Svalbard was chosen because it is cold and remote. The island is expected to remain frozen for the next hundred years, despite changes in the world's climate, and the vault is being carved out of the ice and rock. Seeds deposited in the bank will be preserved by the cold, certainly for hundreds and perhaps even thousands of years. The freezing conditions, not to mention polar bears, should put off any unwelcome visitors. Just in case they do not, the bank will be 70 metres (230 feet) underground, inside concrete walls more than a metre thick and behind a strong security door and a perimeter fence.

The Global Crop Diversity Trust, a charity involved in the creation of the vault, estimates that there are now some 1,400 gene banks for crops, scattered on every inhabited continent. It is developing plans to conserve every important crop on the planet. Some do not have seeds and so cannot be stored on Svalbard. Bananas, for example, are estimated by the United Nations Food and Agriculture Organisation to be the world's fourth most consumed food (after wheat, rice and maize) and form the staple diets of some 400m people in the tropics. Bananas can only be conserved as cuttings, and these must be cut back and replanted every few months. Work is under way to develop better ways of preserving such crops.

Many of the gene banks are in countries where the crop is not native, to make it more likely that the species will survive a disaster. (The banana bank is in Belgium.) The Svalbard vault fulfils this criterion for any seed you can think of. Whether anyone will be able to reach it if catastrophe strikes is another question.

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Conservation (1)

Fishing for compliments

Jun 22nd 2006
From The Economist print edition

George Bush makes a surprising stand for marine wildlife

CONSERVATIONISTS were choking on their cornflakes on June 15th when George Bush, a man not known for his green credentials, announced that he would create the world's largest marine reserve. A chain of ten islands and their surrounding waters, 1,400 miles (2,250 kilometres) north-west of the main Hawaiian islands, are to be protected from fishing and oil drilling.

The archipelago reserve covers 4,500 square miles (1.2m hectares) of coral reef and is home to 7,000 species including whitetip reef sharks and spinner dolphins. A quarter of the reserve's species are found nowhere else. The islands are also the primary home of the 1,400 surviving Hawaiian monk seals and most remaining Hawaiian green sea turtles. Overall, the reserve is around 140,000 square miles in size, larger than the Great Barrier Reef in Australia.

Mr Bush created the reserve in an unusual way: he used his executive authority to declare it a national monument, placing it in the same category as the Statue of Liberty and the Devils Tower, a geological feature in Wyoming. Conservationists had hitherto been struggling to preserve the waters around Hawaii using the National Marine Sanctuaries Act. The battle had been expected to continue for at least another year. However, with a stroke of the presidential pen, Mr Bush has bypassed all the expected wrangling over the area's management and use.

Within the monument, commercial fishing will be phased out over the next five years, although conservation groups hope to buy the remaining fishing permits. Despite this, the Western Pacific Fishery Management Council, one of eight regional groups that advise federal fishing agencies, says that it will fight to keep the area open to fishing.

By sidestepping the marine-sanctuaries law, Mr Bush has highlighted its problems. Early supporters of the act, passed in 1972, had hoped it would be used to create a system of marine wilderness reserves on the same principles as for those on land. However, according to Bill Chandler, vice-president of the Marine Conservation Biology Institute, a conservation group in Washington, DC, only 13 marine sanctuaries have been created. Together, these encompass less than 0.5% of America's territorial waters. Indeed, the area of the new national monument is seven times that of all the existing marine natural reserves combined.

Moreover, America's marine “sanctuaries” do not live up to their name. In all of them, fishing is allowed, although a few have tiny portions where it is not. In some, a destructive fishing practice called bottom trawling, which scours life from the ocean floor, is permitted. And in some sanctuaries, the extraction of oil and gas is allowed.

America has made little progress in marine conservation largely because its sanctuaries legislation attempts to balance preservation with other uses. This allows the oil and fishing industries to limit a sanctuary's scope. Furthermore, says Dr Chandler, the public procedure by which marine reserves are designated as such causes delays. Since 2002 the effort to make the Hawaiian archipelago a sanctuary has spawned more than 100 meetings and working group sessions and 22 formal public hearings; 52,000 comments have been made.

Dr Chandler says that marine conservation now requires either the reform of the National Marine Sanctuaries Act or entirely new legislation. More than 30 years after the law was passed, America has nothing close to a comprehensive system of marine reserves. None has been designated in the Caribbean or the northern Pacific or off Alaska, despite the presence of important marine ecosystems in these

areas.

Such problems may explain why, in the view of conservationists, federal agencies have made little progress in protecting endangered marine species, including several kinds of whale. America has plenty of laws on its books—the Endangered Species Act and the Marine Mammal Protection Act, as well as the sanctuaries law—but to little effect. At least the conservationists have found an unlikely friend.

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Conservation (2)

Whaling and gnashing of teeth

Jun 22nd 2006
From The Economist print edition

A return to commercial whaling remains unlikely

EMOTION, according to the Japanese government, should play no part in decisions about commercial whaling. Yet when the International Whaling Commission (IWC), which regulates the industry, approved a motion to consider a return to hunting at its annual meeting held between June 16th and 19th, the response was jubilation and anguish.

The practical significance of the vote is nil. Japan and its allies must win the support of three-quarters of the IWC's members to overturn the moratorium on whaling adopted back in 1982. The pro-whaling screed was approved by a much thinner margin: 33 votes to 32. More importantly, perhaps, a motion to hold secret ballots in future (thought to favour the would-be whalers) failed.

Nonetheless, conservationists worry that the harpoon lobby is gaining ground. More whale-friendly nations must be recruited to the IWC, they say, to counteract poor countries only too happy to do down whales in exchange for Japanese aid money. (Any country can join, whether or not it boasts a single whaling boat, or even a coast from which to launch one: Luxembourg, for example, sides with the whales; Mongolia backs the whalers.) There is also talk of tourist boycotts of countries that dare to vote in favour of whaling.

In fact, the IWC's own scientists have, in effect, endorsed a return to whaling. Back in 1994 they devised an algorithm to determine a sustainable catch of the most common whale species despite continuing uncertainty about how abundant they are. In theory, whaling will resume as soon as the IWC can agree on a monitoring system to ensure that its members keep to the quotas set. In practice, opponents of whaling have dragged out talks on such a system in order to delay a resumption indefinitely. That tactic, needless to say, leads to endless acrimony at the IWC's meetings. With whaling, politics and cash are more important than science.

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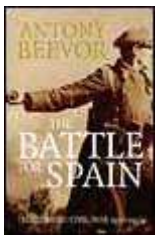
The Spanish civil war

Men of la Mancha

Jun 22nd 2006
From The Economist print edition

A quarter-century after he first wrote it, a British military historian reworks his epic study of the Spanish civil war—and challenges many of its enduring myths

The Battle for Spain: The Spanish Civil War 1936-1939
By Antony Beevor



Penguin Press; 560 pages; $17.
Weidenfeld & Nicolson; £25

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Magnum

ANTONY BEEVOR, a military historian and former soldier, has made a speciality over the past decade of sifting through recently opened Russian archives in search of new material about old events. This search has yielded considerable treasures, allowing him to produce a fresh account, from the inside, of the siege of Stalingrad and a narrative of the final battle for Berlin. Both became bestsellers, translated into more than 20 languages and with 2m copies in print.

Mr Beevor's latest trawl through these same archives, far from resulting in a new book, has led him

instead to rewrite an earlier work, his 1982 account of the Spanish civil war. Mr Beevor seeks to dispel many of the myths that arose from the conflict, in particular the mystique surrounding the republican cause.

If the history of wars tends to be written by the victors, Spain's civil war is the great exception. Few believed General Francisco Franco's version of the divinely backed “crusade” against communists, freemasons, separatists, atheists and other assorted enemies. As a result, an air of heady romance surrounds those who lost. The heroic figures of the war are the poet-volunteers of the International Brigades, the anarchist militia fighters of the republic and the woman known as *la Pasionaria*, Dolores Ibárruri. “No pasarán!” (“They shall not pass”) she famously said of Franco's right-wing rebels. She was wrong. The 1936 rightist uprising ended in absolute victory in 1939. Spain lived under dictatorship for nearly four more decades.

Spain's short-lived republic, argues Mr Beevor, was badly destabilised by those on the left who later claimed to be its protectors. An attempted 1934 revolution, led by Asturian miners against a conservative republican government, inflicted a terrible blow. The left-wing Popular Front that won the elections then failed to control its extreme supporters. Had the left not won at the polls, Mr Beevor suspects, it would have risen up against the right. However well-informed, that is only speculation.

Twentieth-century right-wing dictators routinely claimed to be saving their countries from communist “evil”. Franco was no exception. Was he right, though? Some Spaniards think he was, as recent sales of revisionist polemics show. Mr Beevor does not go that far. The rightist uprising was, after all, against an elected government. The counter-factual question of what might have happened may be fascinating—but it remains just that, a question.

The ultimate success of the generals' rebellion came down to many things. Top of Mr Beevor's list is republican incompetence. Advance warnings were ignored. Then, when it happened, the republic was crippled by hesitation. Indecision, ill-discipline and poor officers threw away what early on was a winning position.

Spain was a curtain-raiser for the second world war—pitting the great totalitarian blocks against one another. Missing from the equation, however, were the democratic powers of Europe and America. Mr Beevor nails the hypocrisy of their non-intervention. Britain's ambassador in Spain, Sir Henry Chilton, was “a blatant admirer” of the nationalists. Anthony Eden, the foreign secretary, supposedly told his French counterpart that he preferred a quick rebel victory. The behaviour of the Royal Navy was “astonishing for a non-interventionist power”. Quiet conversations by pro-nationalist Spanish aristocrats in White's, a London gentlemen's club, were “infinitely more influential on government policy than mass rallies or demonstrations”. So much, then, for the efforts of the intellectuals—from W.H. Auden to George Orwell—who made the republic their cause célèbre.

Texaco, meanwhile, fuelled Franco's army. “Without American petroleum and American trucks and American credit we could never have won the civil war,” one official said later. Hitler, Mussolini and Stalin ignored non-intervention. Spain became their military sandpit. They sent troops, tanks, aircraft, advisers and pilots.

Mr Beevor lists the military milestones that they helped Franco to attain. The first major troop airlift in history, for example, brought his Army of Africa to mainland Spain. The intense aerial bombardment of Madrid was the first of a major capital, the precursor to the London Blitz. The destruction of the Basque town of Guernica, which inspired Picasso's famous painting, fitted Germany's treatment of Spain as a test laboratory for military hardware. Heinkel bombers were the first to attack the town. Careful follow-up work was done elsewhere to assess the bombing accuracy of the new German aircraft,especially the Junkers 87 or “Stuka”.

Hitler's insistence that German arms go to Franco, rather than rival generals, helped the future *caudillo* win absolute control of the nationalist side. The republic walked willingly into Stalin's embrace. Communists, and their Soviet advisers, brought discipline and organisation to the army. Mr Beevor shows how they also brought Trotskyist paranoia, witch hunts, strategic errors and a tendency to blame disasters on imagined enemies within. The republic's final chance of survival lay in the hope that the democracies would wake up to Hitler. Neville Chamberlain chose appeasement. Mr Beevor reckons Franco's ensuing “white terror” claimed 200,000 lives. The “red terror” had already killed 38,000. The real loser of the battle for Spain was Spain itself.

The current debate focuses on how the republic and, indeed, the civil war should be remembered. Spain's Socialist prime minister, José Luis Rodríguez Zapatero is due to present proposals for what to do with the underground basilica that Franco built for himself at the Valle de los Caídos, the “valley of the fallen”. He should read Mr Beevor's book first.

The Battle for Spain: The Spanish Civil War 1936-1939.
By Antony Beevor.
Penguin Press; 560 pages; $17.
Weidenfeld & Nicolson; £25

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About sponsorship

American military intervention

Sanctified swords

Jun 22nd 2006
From The Economist print edition

THE powerful special assistant for national security to John Kennedy and Lyndon Johnson presents an enduring mystery. How did somebody as intelligent as McGeorge Bundy convince not only himself but also two presidents that sending troops to a small country far away was essential to America's future?

Andrew Preston, a historian, goes over familiar ground, but adds to it on the basis of new research in a dozen archives. Bundy, who became dean of the faculty of arts and sciences at Harvard University at the age of 34, used to advise his students to read Shakespeare's “Henry IV” to understand American history. By this, Mr Preston speculates, Bundy understood that nothing could be secure without order. Chaos threatened everything. Translated into the context of the cold war, this meant that appeasement was fruitless and military force indispensable. In Henry IV's own words, or at least Shakespeare's version of them, America should “draw no swords but what are sanctified”, but it should not hesitate to do so when needed.

It is in exploring how Bundy convinced two presidents of the rightness of his argument that “The War Council” provides fresh insight. Most histories of the Vietnam war focus either on the combat itself or on the political leadership involved. Mr Preston looks not at the flashes of gunfire but at the more shadowy world of bureaucratic infighting.

The War Council: McGeorge Bundy, the NSC, and Vietnam
By Andrew Preston

Harvard University Press; 320 pages; $49.95 and £32.95

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Bundy took office with a strong mandate from Kennedy to reorganise the largely administrative National Security Council (NSC). How he did so is a case study for anyone looking to empower their component of an organisation. Bundy bypassed the planning board that had previously set long-range policy. He put himself in charge, and divided the board's staff into groups of geographical analysis. This created an aura of expertise that competed with the State Department, but with a crucial difference that edged out Foggy Bottom: Bundy got an office in the White House. This combination of institutional credibility and physical proximity proved extremely powerful, and something that would long be copied.

Luck played a part too. When the American-supported Bay of Pigs invasion of Cuba went wrong, Kennedy withdrew his confidence from the military advisers who had promoted it, turning instead to the civilian NSC. Johnson, who assumed power in 1963, had little foreign-policy experience and relied even more on Bundy.

This success had fateful results; Mr Preston argues that “it would be difficult, if not impossible, to overstate the impact that this concentration of power had on American foreign policy.” The NSC's expertise, however, was more apparent than actual. Bundy's men sanctioned the use of force in regions about which they knew little. As Mr Preston laments, “rarely, if ever, did they even reflect on their inherited worldview.” They failed to distinguish between what could be done and what should be done.

Herein lies the value of this occasionally dense academic work, which shows all too clearly what happens when the White House circle of decision-makers has too small a radius. Clearly, leaders have the right to rely on a loyal few; excessive debate and deadlock are not desirable. But as America is once again learning, people in power need to make sure that the decisive circle includes those who actually know a region. If leaders hope to draw no swords but what are sanctified, full consultation and real expertise are not expendable.

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Tintin and the broken metaphor

Dog days

Jun 22nd 2006
From The Economist print edition

THE best parodies are so good that the reader is never quite sure if the author really is joking or not. This is certainly the case in Tom McCarthy's delicious new book, which unleashes the arsenal of post-modern literary criticism on Tintin, the comic-strip boy hero created by Georges Remi, a Belgian, under the pseudonym Hergé.

Tintin and the Secret of Literature
By Tom McCarthy

Granta; 211 pages; £14.99

Buy it at
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The book blends genuine detective-work with the most absurd non-sequiturs and red herrings of literary criticism. It is startling (if true) to learn that the seemingly racist “Tintin in the Congo” is popular in Africa; and intriguing to speculate whether the glamorous illegitimacy of Hergé's own family history is echoed in the family crest of Tintin's friend, Captain Haddock. Mr McCarthy argues that it signifies that Haddock's ancestor Sir Francis was a royal bastard.

Such detours into reasonableness serve only to lure the reader into the realms of lunacy: the Castafiore Emerald, the author argues with sweeping confidence, is not just the oft-misplaced bauble belonging to a forceful but absent-minded opera singer: it is her clitoris. Switch on the “sexual sub-filter”, he explains, and the jewel's real nature is clear. “She sits on it. It is hard to find, and easy to lose again among the moundy grass...it gives her pleasure and encourages her to give men more pleasure.” Poor Captain Haddock's plaster-covered leg, meanwhile, is “a sign of both castration and an erection”.

There is plenty more such drivel, with other details of plot, scene and character being the subject of a farrago of bogus inference, forced taxonomy and lame puns. It is all bolstered with a galaxy of references from the self-indulgent worlds of literary criticism, psychoanalysis and the Situationists of the 1960s. Too few names go undropped, the prime spot going to Roland Barthes.

The book is sprinkled with enough pretentious jargon, factual error and illogicality to infuriate and baffle the unwary. But the result is a satire of which Hergé, himself the creator of a cast of immortal parodies, would indeed have been proud.

Tintin and the Secret of Literature.
By Tom McCarthy.
Granta; 211 pages; £14.99

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About sponsorship

New cinema

A whodunnit on wheels

Jun 22nd 2006
From The Economist print edition

A curiously compelling documentary about electric cars

“HERE'S what happened: I fell in love with my car.” So says Chris Paine, the director of “Who Killed the Electric Car?”, when asked why he made the documentary that proved so popular at the Sundance film festival earlier this year and which goes on general release in America on June 28th.

Hollywood's love affair with cars is nothing new, of course. And it is not only petrol-heads or even just men who have found cars liberating. Who could forget the sheer exhilaration, at the end of “Thelma & Louise”, when the heroines, surrounded by the cops on one side and a vast canyon on the other, put their foot down and fly to freedom?

Mr Paine's film is no ordinary car film, perhaps because the car he loved was no ordinary car. Mr Paine and Dean Devlin, the executive producer (best known for “Godzilla” and “Independence Day”) both owned electric cars during the brief period a decade ago when the big car companies sold them in parts of America. They did so not because they wanted to, but because Californian regulators forced car companies to sell some “zero-emission” cars.

Grudging though it was in its greenery, General Motors did manage to produce the super-fast EV1—the most aerodynamic production car ever made. The EV1 proved hugely popular among California's green and gadget-loving set, the same crowd that is now rushing to buy the Toyota Prius. However, unlike today's hybrid cars, which are growing into a mass-market phenomenon, the EV1 and other electric cars bit the dust.

Motor companies insist that the reason the original battery cars failed was lack of consumer interest, but that view is turned on its head here. The film investigates various possible culprits behind the “murder” of the electric car in turn—oil giants, carmakers, consumers, regulators, hydrogen energy (a rival technology) and so on—before pointing the finger at the true culprit. To its credit, the film does this with great sophistication and without over-simplifying or distorting energy policy and politics.

If the only thing recommending this film were its intelligent take on policy, it would be a snoozer. Instead, it is quite gripping. The main reason is that the writers have cleverly turned their conspiracy theories into a whodunnit. In one heart-stopping sequence, activists sneak into GM's secret testing grounds via helicopter and film the company crushing the beloved EV1s—in direct contradiction to the company's public vow to save the car.

Go and see “Who Killed the Electric Car?”—not just to learn about how car companies once viewed environmentalists and environmental concerns, or because a new generation of electric cars (including

plug-in versions of today's hybrids) will soon come to market—but as a lively murder mystery. Agatha Christie would have loved it.

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Muslims and the West

First, know thyself

Jun 22nd 2006
From The Economist print edition

FOUR authors of recent books about America's conflict with Islamism are like blind men feeling an elephant—each one describes the problem in a slightly different way. What unites them, though, is a single, overarching question: if the jihadists are just a bunch of bloodthirsty, head-chopping, woman-haters, why does the West have such a hard time gaining the moral high ground in what America persists in calling the "war on terror?"

Bruce Bawer and Claire Berlinski focus on what they see as a moral and spiritual crisis for Europe. Rather than line up behind America to confront radical Islam, Europe's supine elites prefer to snipe at the superpower that protects them. Too selfish to bear the children who will support them in old age, they import foreigners whose own children turn out to have other plans for the future. Lost to Christianity, atheist Europeans remain in thrall to a weak rationality that prevents them mobilising against the green peril within.

If this all sounds familiar—Europeans are from Venus, Americans are from Mars—that's because it is. Long before Robert Kagan's 2003 bestseller, "Of Paradise and Power", Europeans regarded Americans as trigger-happy cowboys whereas Americans thought Europeans were spineless softies incapable of making moral distinctions. Nothing shows more clearly how the West has failed to wake up to the reality of the *jihad* than the way America and Europe, like an old married couple, have lapsed back into their old familiar arguments.

Mr Bawer, a gay cultural critic who admired Amsterdam's tolerance and has spent the better part of the last decade living there and in Oslo, has written the better of the two books. His sexual orientation may have sensitised him to the clash brewing between immigrant communities, who by and large reject European attitudes toward women and sexuality, and native Europeans for whom such cultural liberalism has become a core value. He was an early supporter of the gay Dutch sociologist-turned-politician Pim Fortuyn. Fortuyn, who was murdered in 2002 by an animal-rights activist, argued that the rise of a fundamentalist subculture in the Netherlands threatened the country's democratic values and had to be addressed seriously before it was too late.

Like Fortuyn, Mr Bawer argues passionately that Europe has reached a "Weimar moment". Liberals can stand up to radical Islamists or watch as their democracies commit cultural suicide. His account of how death threats and intimidation by Islamists had become a part of political life in Scandinavia long before the recent cartoon crisis will startle many readers. He also shows how Muslims have used such customs as arranged marriages to forestall integration with the wider society.

Wildly exaggerated

Unfortunately, also like Fortuyn, who called Holland's Muslim community "a kind of fifth column", Mr Bawer weakens his argument by casting too wide a net. He understands the importance of making a careful distinction between radical

While Europe Slept: How Radical Islam is Destroying the West from Within
By Bruce Bawer

Doubleday; 247 pages; $23.95

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Menace in Europe: Why the Continent's Crisis is America's, Too
By Claire Berlinski

Crown Forum; 288 pages; $25.95

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Storm from the East: The Struggle Between the Arab World and the Christian West
By Milton Viorst

Islamists and the great mass of ordinary Muslims. Europe's fate lies in the hands of moderate Muslims, he says, because only they can expose the radicals and discredit their habit of using force and violence in the name of Islam. In practice, though, he seems incapable of maintaining the distinction for long. On one page, he approvingly quotes a Muslim liberal who says, “There's a big difference between a Muslim and an Islamist, just as big a difference as between a German and a Nazi.” A few pages later, he uses wildly exaggerated statistics to give warning that Muslim birth rates will soon turn Europe into “Eurabia”. The Muslim share of Switzerland's population is not an “astonishing 20%”, as Mr Bawer claims, but 4.3%, at least according to the 2000 Swiss census.

What matters is not how many Muslims are born, but what they believe. Mr Bawer and Ms Berlinski pass in silence over Europe's colonisation of the Islamic world, just as they fail to remark on the impact that America's “war on terror” has had in radicalising Muslim public opinion against the West. For a more informed and more nuanced view, readers would do well to consult Milton Viorst's “Storm from the East”. Mr Viorst, a scholar and journalist with long experience of the Middle East, gives a succinct and lucid account of the centuries-old conflict between the Arab world and the Christian West. Over the past 100 years, he argues, the Arabs have grasped at various ideologies as a way of regaining control over their own destiny. His point is that nothing serves to bring out the Arab sense of *asabiyya* (group unity) better than a threat from outside. “Notwithstanding its military superiority, unless the West accepts the East's right to determine its own future, the bloodshed that currently marks the contest will continue,” he concludes.

All this would seem to suggest that the best strategy to counter the Islamist threat would be the opposite of the Christian reawakening favoured by Mr Bawer and Ms Berlinski. It would be a return to the Western values, not of the Crusades, but of the Enlightenment—to the robust rationalism that brought forth both the American Declaration of Independence and the Universal Declaration of Human Rights. Jytte Klausen, a political scientist at Brandeis University, questioned 300 European Muslim leaders and found that most viewed human rights, rather than Islam, as their primary political belief system. Europeans should make strict adherence to human-rights standards, rather than religious belief, the litmus test for inclusion, she says. If that forces the West to live up to the same Enlightenment standards, then so much the better.

Modern Library; 224 pages; $21.95

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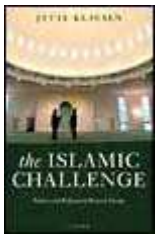
The Islamic Challenge: Politics and Religion in Western Europe
By Jytte Klausen



Oxford University Press; 264 pages; £18.99. To be published in America by Oxford University Press in December

Buy it at
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While Europe Slept: How Radical Islam is Destroying the West from Within.
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About sponsorship

Keeping cartoons cool

Fresh eyeballs

Jun 22nd 2006 | BALTIMORE
From The Economist print edition

KAL, one of The Economist's cartoonists, livens up an old medium

THIS is not a happy time for political cartoonists. The furore over the drawings of the Prophet Muhammad, published in Denmark, showed how explosive their work can be. Long before that, many newspaper owners in America had concluded that it was commercially safer to avoid testing the sensitivities of readers—and advertisers—by giving editorial cartoonists free rein. And now new media threaten the very printed pages that carry their work, as newspaper circulations fall and editorial costs are cut. How can political cartoonists survive?

Kevin Kallaugher (KAL to his readers), the political cartoonist for this newspaper and until recently for the *Baltimore Sun*, thinks he has an answer. Cartoonists, he believes, need to "go where the eyeballs are" and produce animated, interactive creations that will work on television and on the screens of computers and iPods. Since leaving the *Baltimore Sun* he has spent the past five months working with geeks at the imaging research centre of the University of Maryland, Baltimore County, to develop a three-dimensional virtual cartoon that can talk and move in real time—a sort of "Spitting Image" for the digital era, capable of responding to news with even more immediacy than the traditional political cartoon.

The hilarious result of these labours, unveiled earlier this month, is a virtual caricature of George Bush who moves at the touch of video-game joysticks. The technical wizardry has the potential to keep cartoons cool through new possibilities such as live interviews with cartoon politicians or daily downloaded "tooncasts". But anyone who visits "Mightier than the Sword: The Satirical Pen of KAL", an exhibition of more than 200 of Mr Kallaugher's published works, will hope that the art of the traditional political cartoon is not dead yet.

"Mightier than the Sword: The Satirical Pen of KAL", is at the Walters Art Museum in Baltimore until September 3rd

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Correction: Mary Wesley

Jun 22nd 2006
From The Economist print edition

The long legal battle waged against Mary Wesley was not intended to deny Wesley her share in a family trust, as described in the review of Patrick Marnham's biography “Wild Mary” (“Hail Mary”, June 10th), but was over the inheritance of her two older sons. Our apologies.

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About sponsorship

Charles Haughey

Jun 22nd 2006
From The Economist print edition

Charles Haughey, four times taoiseach of Ireland, died on June 13th, aged 80

Eamonn Farrell/Photocall Ireland!

CHARLES HAUGHEY got a good send-off, with a state funeral and all the trimmings, verbal and decorative. Bertie Ahern, Ireland's current leader, said that history's judgment “will be favourable”. Foes and critics alike praised Mr Haughey's common touch, his panache, his brains and his energy.

Charles Haughey was a technicolour politician in a monochrome landscape. He burst onto the Irish political scene at a time when it featured dull men distinguished only by their austerity. Elected to the Dail in 1957, the flamboyant Mr Haughey quickly became the foremost member of a group tagged the “men in mohair suits” for their smart clothes and brash ways.

Although an Anglophobe by birth and conviction, he cultivated the most elaborate tastes and mannerisms of the Anglo-Irish gentry. He had mansions, estates and a private island. He liked antique furniture, and fine art, horses, clothes and wines.

He wanted Ireland to swagger too. He had embassies renovated, and encouraged diplomats to splurge on entertaining. He liked high culture, and basking in the reflected glory of the literary and artistic elite. One of his most memorable innovations was freeing creative types from income tax. He gave free travel for pensioners, a fair deal for widows, and tax breaks to the bloodstock industry.

History may well judge that he was the most gifted Irish politician of his generation. But it is harder to argue that he put those talents to good use. Ireland was a benighted place when his political career began, and a bright one when he died. But that was largely despite his influence, not thanks to it. To that extent, Mr Haughey represented the worst side of his country's post-war history.

Few charges against him stuck, though. Many had long wondered how he supported a lavish lifestyle on a politician's salary. But the Irish media, cowed by the country's ferocious libel laws, investigated half-heartedly. Only in 1999 did a corruption tribunal identify $10m-plus of the lavish gifts he had received from businessmen, and the way his bank simply cancelled a large chunk of his overdraft (Mr Haughey had warned them “I can be a very troublesome adversary”).

The revelations were tantalisingly partial: pleading ill-health, Mr Haughey shunned the inquiry. He

brushed off the allegations, arguing either that “finances were peripheral” or claiming a precedent: had not Winston Churchill been financed by business admirers too?

Perhaps, but only when out of power, and Churchill did not plunder the Tory coffers; Mr Haughey used those of his Fianna Fail party as his private piggy-bank. He was a flagrant tax-evader: when the authorities finally caught up with him, he had to sell his estate to pay them. Even his greatest fans would not call him fastidious. It was best to call him simply “Boss”. There was cronyism for chums and thuggish treatment of the rest. Unfriendly journalists' phones were bugged. His justice minister even considered having dissident members of his parliamentary party arrested. Days before his death he warned a British journalist who was getting too nosey: “My arms reach far, and people have been found floating down the Thames.”

A marriage into an Irish political dynasty was the springboard for his later career. His own roots were military: his family fought against the British to win Irish independence. The mutual loathing was lifelong. In 1945 the young Mr Haughey, then a humble commerce student in Dublin, led a crowd that burned the British flag to mark VE-Day. As finance minister until 1970, he was twice tried (and acquitted) of running guns to the IRA.

Confounding those who thought that scandal had ended his political career, he returned to his party's front bench in 1975. When it took power in 1977, he became health minister, striking an ingenious compromise—“an Irish solution to an Irish problem”—on the issue of birth control: contraceptives could be available on prescription, to married couples only.

He became head of a short-lived minority government in late 1979, when the economy was floundering because of high taxes. He preached austerity, yet practised prodigality, doling out favours and privileges with flair and precision. An election in 1981 put him briefly in opposition; he returned to office briefly the next year for a few more months of profligate populism and misrule.

Frayed mohair

In opposition, as evidence of his heavy-handed ways came to light, Mr Haughey's party split. But amid growing frustration with Ireland's economic stagnation, he scraped back into power in 1987 for a third minority term of office. This one, and a coalition government that followed, lasted for five years and, at first, proved remarkably successful, chiefly thanks to a decision by the Fine Gael opposition to support all moves towards fiscal reform. That allowed the fierce spending and tax cuts that began to transform Ireland from a banana republic into a “Celtic Tiger”.

But Mr Haughey had little time to enjoy the fruits of this rare period of goodish government. Old scandals resurfaced and new ones broke. He left politics for good in 1992, his reputation increasingly tattered, and with a lot worse to come.

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Overview

Jun 22nd 2006
From The Economist print edition

After an uneasy few weeks, the world's main **stockmarkets** had a less torrid time. The S&P 500 went up by 1.8% over the week, the FTSE 100 by 2.9% and the Nikkei 225 by 2.3%.

America's housing market seems to be slowing, although it is not slumping. The pace of new home construction rose by 5% in May after falling for three consecutive months. Nonetheless, housing starts are 3.8% lower than a year ago. A regular survey of builders' optimism by the National Association of Home Builders dropped again in June, reaching its lowest level since April 1995.

The **American** current-account deficit narrowed in the first three months of 2006 as the trade balance improved and the investment-income balance shifted from deficit to surplus. Even so, America's reliance on foreign funds is still huge. The current-account deficit was $808.5 billion in the year to the first quarter.

Japan's customs-cleared trade surplus was 35% higher in May than 12 months earlier, the first year-on-year rise for 17 months. The country's ports rose by 19%; those to China increased by 29%.

Canada's consumer prices rose by 2.8% in the year to May, faster than expected, because of rising energy prices. More worrying, core inflation, which excludes the eight most volatile components, such as the price of petrol, picked up sharply, from 1.6% in the year to April to 2.0% in May. The inflationary surprise makes it more likely that the Bank of Canada will raise interest rates when it meets on July 11th.

The **euro area** ran a monthly trade deficit of $2.4 billion in April owing to the high prices of oil and gas. The 12-month trade balance remains in surplus, but only just. It shrank to $2.2 billion in April, having been $67 billion a year before.

French consumer spending on manufactured goods stayed strong in May: it was 0.6% higher than in April and 5.6% more than in May 2005. Expenditure on household durables rose especially fast, by 20.6% in the 12 months to May, boosted by a buoyant housing market.

British interest rates may stay at 4.5% for a while. According to minutes published on June 21st, the Bank of England's rate-setting committee voted by seven to one to keep rates at 4.5% earlier this month.

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About sponsorship

Output, demand and jobs

Jun 22nd 2006
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate	
	latest	qtr*	2006	2007	latest		latest		latest	year ago
Australia	+ 3.1 Q1	+ 3.5	+ 3.2	+ 3.4	+ 0.6 Q4		+ 2.7 Q1		4.9 May	5.1
Austria	+ 3.0 Q1	+ 2.4	+ 2.2	+ 1.9	+ 5.5 Mar		+ 1.0 Mar		4.8 May	5.1
Belgium	+ 2.2 Q1	+ 3.2	+ 2.3	+ 1.9	+ 5.1 Apr		– 0.8 Mar		12.0 May†	12.2
Britain	+ 2.2 Q1	+ 2.3	+ 2.4	+ 2.5	– 1.0 Apr		+ 4.0 May		5.3 Apr‡	4.7
Canada	+ 3.2 Q1	+ 3.8	+ 3.1	+ 2.8	+ 2.1 Mar		+ 4.4 Mar		6.1 May	6.9
Denmark	+ 4.3 Q1	+ 1.7	+ 2.7	+ 2.2	– 0.7 Apr		+ 2.1 Apr		4.8 Apr	6.0
France	+ 1.5 Q1	+ 2.2	+ 2.0	+ 1.9	– 0.3 Apr		+ 2.4 Apr		9.3 Apr	10.1
Germany	+ 1.4 Q1	+ 1.6	+ 1.8	+ 1.2	+ 4.8 Apr		– 1.0 Apr		11.0 May§	11.9
Italy	+ 1.5 Q1	+ 2.4	+ 1.3	+ 1.1	– 2.6 Apr		– 3.2 Mar		7.7 Dec	7.9
Japan	+ 3.8 Q1	+ 3.1	+ 2.9	+ 2.4	+ 3.6 Apr		– 1.5 Apr		4.1 Apr	4.4
Netherlands	+ 2.9 Q1	+ 0.7	+ 2.4	+ 2.0	+ 0.4 Apr		+ 4.0 Mar		5.8 May††	6.7
Spain	+ 3.5 Q1	+ 3.3	+ 3.2	+ 2.8	– 9.6 Apr		nil Apr		8.3 Apr	9.5
Sweden	+ 4.1 Q1	+ 4.6	+ 3.4	+ 2.8	+ 6.2 Apr		+12.5 Apr		4.8 May†	5.2
Switzerland	+ 3.5 Q1	+ 3.8	+ 2.4	+ 1.7	+ 3.9 Q4		+ 0.7 Mar		3.3 May†	3.7
United States	+ 3.6 Q1	+ 5.3	+ 3.4	+ 2.8	+ 4.3 May		+ 4.6 Apr		4.6 May	5.1
Euro area	+ 1.9 Q1	+ 2.4	+ 2.1	+ 1.7	+ 1.9 Apr		+ 2.8 Apr		8.0 Apr	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*									
Finland	+ 2.8 Q1	+ 1.6	na	na	+ 5.9 Apr		+ 6.8 Apr		7.6 May	8.3
Greece	+ 4.1 Q1	na	na	na	– 1.9 Apr		+ 6.0 Mar		9.7 Q4	10.4
Iceland	+ 5.0 Q1	na	na	na	na		na		1.3 Apr†	2.3
Ireland	+ 5.7 Q4	+ 7.6	na	na	+10.8 Apr		+ 5.3 Mar		4.4 May	4.4
Luxembourg	+ 5.7 Q4	na	na	na	+ 5.8 Mar		+ 9.7 Apr		4.3 Apr	4.2
New Zealand	+ 1.9 Q4	nil	na	na	– 2.9 Q4		+ 3.0 Q1		3.9 Q1	3.9
Norway	+ 5.4 Q1	+ 2.3	na	na	– 7.5 Apr		– 1.2 Apr		4.0 Apr**	4.8
Portugal	+ 1.0 Q1	+ 1.8	na	na	– 1.7 Apr		+ 0.7 Apr		7.7 Q1†	7.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Feb-Apr; claimant count rate 3.0% in May. §EU harmonised rate 8.2% in Apr. ††Mar-May. **Feb-Apr.

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About sponsorship

Prices and wages

Jun 22nd 2006
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2006	2007	latest	year ago	latest	year ago
Australia	+ 3.0 Q1	+ 2.4	+ 2.9	+ 2.7	+ 7.9 Q1	+ 6.0	+ 4.0 Q1	+ 4.5
Austria	+ 1.7 May	+ 2.3	+ 1.8	+ 1.8	+ 3.7 May	+ 1.3	+ 2.7 Apr	+ 2.2
Belgium	+ 2.2 May	+ 2.5	+ 2.0	+ 1.8	+ 4.9 Apr	+ 3.3	+ 2.2 Jan	+ 2.3
Britain	+ 2.2 May*	+ 1.9	+ 2.0	+ 1.9	+ 3.0 May	+ 2.7	+ 4.4 Apr†	+ 4.6
Canada	+ 2.8 May	+ 1.6	+ 2.3	+ 2.2	+ 2.2 Apr	+ 1.6	+ 0.2 Mar	+ 3.6
Denmark	+ 2.0 May	+ 1.5	+ 2.0	+ 2.0	+ 5.7 May	+ 3.0	+ 2.9 Q4	+ 2.9
France	+ 2.1 May	+ 1.5	+ 1.8	+ 1.5	+ 3.6 Apr	+ 3.3	+ 3.3 Q1	+ 2.9
Germany	+ 1.9 May	+ 1.7	+ 1.7	+ 2.3	+ 5.0 May	+ 1.7	+ 0.3 Mar	+ 1.5
Italy	+ 2.2 May	+ 1.9	+ 2.1	+ 1.8	+ 5.5 Apr	+ 4.4	+ 2.7 Apr	+ 3.5
Japan	+ 0.4 Apr	nil	+ 0.5	+ 0.6	+ 3.3 May	+ 1.8	+ 1.3 Apr	+ 0.8
Netherlands	+ 1.3 May	+ 1.3	+ 1.5	+ 1.5	+ 5.5 Apr	+ 5.2	+ 1.9 May	+ 0.4
Spain	+ 4.0 May	+ 3.1	+ 3.5	+ 2.9	+ 5.7 Apr	+ 5.0	+ 3.0 Q1	+ 2.5
Sweden	+ 1.6 May	+ 0.1	+ 1.3	+ 1.8	+ 4.7 Apr	+ 2.7	+ 1.7 Mar	+ 4.2
Switzerland	+ 1.4 May	+ 1.1	+ 1.2	+ 1.2	+ 1.9 Apr	+ 1.3	+ 1.0 2005	+ 0.9
United States	+ 4.2 May	+ 2.8	+ 3.3	+ 2.4	+ 4.5 May	+ 3.6	+ 3.7 May	+ 2.6
Euro area	+ 2.5 May	+ 2.0	+ 2.1	+ 2.0	+ 5.4 Apr	+ 4.3	+ 2.2 Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
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Greece	+ 3.1 May	+ 3.2	na	na	+ 7.9 Apr	+ 4.4	na	na
Iceland	+ 8.0 Jun	+ 2.8	na	na	+ 6.9 May	+ 4.5	+ 8.4 Apr	+ 6.7
Ireland	+ 3.9 May	+ 2.4	na	na	+ 1.7 Apr	− 1.8	+ 3.8 Q4	+ 4.6
Luxembourg	+ 3.1 May	+ 2.4	na	na	+ 4.1 Mar	+15.2	+ 4.5 Mar	+ 2.5
New Zealand	+ 3.3 Q1	+ 2.8	na	na	+ 7.2 Q1	+ 4.2	+ 3.3 Q1	+ 2.5
Norway	+ 2.3 May	+ 1.6	na	na	+19.8 May	+ 9.2	+ 3.6 Q1	+ 4.2
Portugal	+ 3.0 May	+ 1.8	na	na	+ 4.8 Apr	+ 4.4	+ 0.1 Apr	− 1.8

*RPI inflation rate 3.0% in May. †Feb-Apr.

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Part-time work

Jun 22nd 2006
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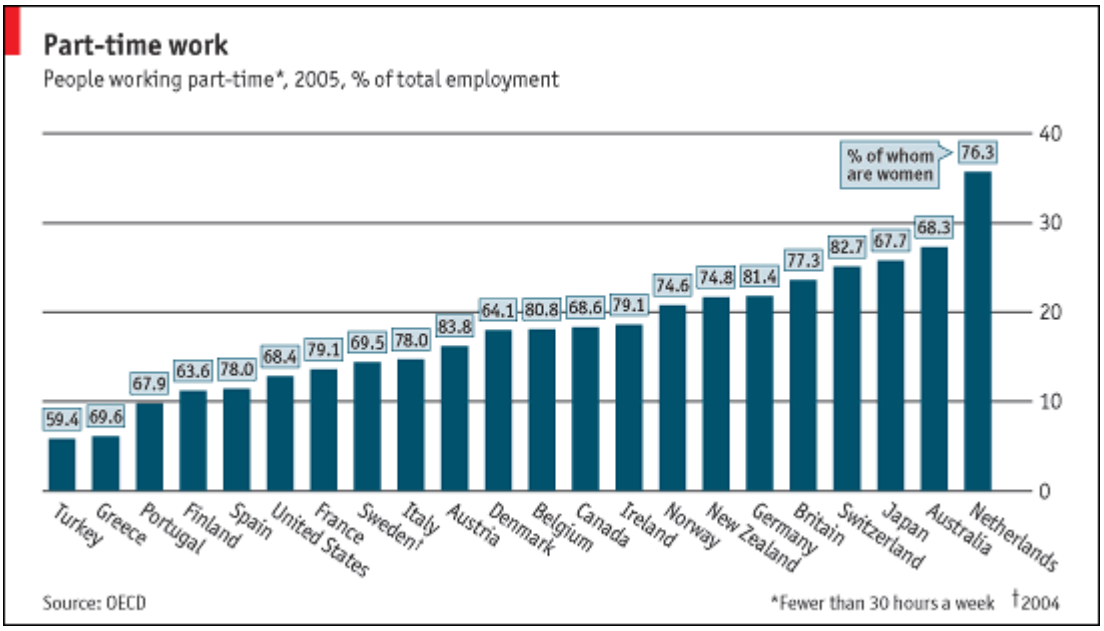

In the past decade there has been a sustained increase in the importance of part-time work, notably in the Netherlands, where it now makes up 36% of total employment. Mostly it is done by women, who account on average for 73% of such work across the OECD. Many governments are taking steps to promote part-time jobs as a means of raising overall employment rates.

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Money and interest rates

Jun 22nd 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jun 21st 2006)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+ 9.5	+10.4	Apr	6.00	5.65	5.77	5.76	5.22	6.82
Britain	+ 5.4‡	+11.8	May	4.70	4.77	4.81	4.71	4.25	5.10‡
Canada	+ 8.7	+ 5.8	Apr	4.23	2.44	4.36	4.55	3.85	5.55
Denmark	+12.8	+10.5	Apr	3.05	2.20	3.57	3.99	3.07	5.29
Japan	+ 4.4	+ 1.4	May	0.22	0.02	0.82	1.87	1.24	1.97
Sweden	+ 0.4	+11.9	Apr	2.23	1.49	3.16	3.90	2.98	3.89
Switzerland	+ 1.4	+ 3.3	May	1.49	0.75	2.00	2.72	1.94	2.70
United States	+ 1.7	+ 4.7	May§	5.29	3.31	5.19	5.04	3.94	5.98
Euro area†	+ 9.8	+ 8.8	Apr	2.99	2.10	3.43	3.85	3.11	4.55

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. §New series for broad money supply. Benchmarks: US 30-year 5.27%, Japan No. 280 1.84%. Central bank rates: US fed funds 5.00%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

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2000=100

	Jun 13th	Jun 20th*	% change on one month	% change on one year
Dollar index				
All items	167.5	165.8	– 7.2	+ 20.8
Food	134.6	133.9	– 3.6	+ 0.3
Industrials				
All	210.1	207.0	–10.0	+ 45.8
Nfa†	165.9	158.7	+ 0.5	+ 20.9
Metals	234.2	233.3	–13.3	+ 57.8
Sterling index				
All items	138.3	136.5	– 5.1	+ 19.8
Euro index				
All items	123.3	121.9	– 5.1	+ 16.6
Yen index				
All items	179.1	176.8	– 4.1	+ 28.1
Gold				
$ per oz	576.50	568.65	–14.9	+ 30.1
West Texas Intermediate				
$ per barrel	70.21	68.92	– 3.3	+ 17.5

*Provisional. †Non-food agriculturals.

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Stockmarkets

Jun 22nd 2006
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Market indices

	Jun 21st	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	4,884.4	5,318.2	4,708.8	+ 1.4	– 8.2	+ 3.7	+ 3.9
Austria (ATX)	3,512.1	4,344.4	3,324.1	+ 4.4	– 19.2	– 4.2	+ 2.7
Belgium (Bel 20)	3,561.3	3,987.3	3,445.1	+ 3.4	– 10.7	+ 0.3	+ 7.5
Britain (FTSE 100)	5,665.0	6,132.7	5,506.8	+ 2.9	– 18.3	+ 0.8	+ 8.3
Canada (Toronto Composite)	11,112.8	12,487.3	10,904.3	+ 1.4	– 11.0	– 1.4	+ 4.1
Denmark (OMXCB)	336.7	395.5	325.0	+ 3.2	– 14.9	– 8.5	– 1.9
France (SBF 250)	3,361.1	3,755.6	3,244.2	+ 3.6	– 23.4	+ 1.8	+ 9.1
France (CAC 40)	4,774.7	5,312.2	4,615.4	+ 3.5	– 31.0	+ 1.3	+ 8.5
Germany (DAX)*	5,503.4	6,140.7	5,292.1	+ 3.7	– 31.8	+ 1.8	+ 9.1
Italy (S&P/MIB)	35,500.0	38,765.0	34,850.0	+ 1.9	– 29.2	– 0.6	+ 6.6
Japan (Nikkei 225)	14,644.3	17,563.4	14,218.6	+ 2.3	– 62.4	– 9.1	– 6.7
Japan (Topix)	1,505.5	1,783.7	1,458.3	+ 2.7	– 47.8	– 8.7	– 6.3
Netherlands (AEX)	426.6	478.0	412.9	+ 3.3	– 39.2	– 2.3	+ 4.7
Spain (Madrid SE)	1,212.3	1,318.5	1,156.8	+ 2.9	– 8.1	+ 4.9	+12.4
Sweden (Affarsvarlden Gen)	291.3	333.7	275.2	+ 3.7	– 27.2	– 0.7	+ 8.6
Switzerland (Swiss Market)	7,427.2	8,122.1	7,154.9	+ 3.6	– 11.7	– 2.1	+ 4.5
United States (DJIA)	11,079.5	11,642.7	10,667.4	+ 2.4	– 5.5	+ 3.4	+ 3.4
United States (S&P 500)	1,252.2	1,325.8	1,223.7	+ 1.8	– 18.0	+ 0.3	+ 0.3
United States (NASDAQ Comp)	2,141.2	2,370.9	2,072.5	+ 2.6	– 57.6	– 2.9	– 2.9
Europe (FTSEurofirst 300)†	1,276.5	1,405.6	1,238.7	+ 2.9	– 25.1	+ 0.1	+ 7.3
Euro area (FTSE Euro 100)†	1,084.1	1,198.7	1,050.0	+ 3.2	– 30.1	– 0.5	+ 6.7
World (MSCI)‡	1,280.2	1,406.3	1,243.9	+ 2.3	– 11.6	+ 1.8	+ 1.8
World bond market (Citigroup)††	633.9	648.4	612.1	– 0.5	– 4.9	+ 2.2	+ 2.2

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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About sponsorship

Trade, exchange rates and budgets

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	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Jun 21st	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Jun 21st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2006‡
Australia	− 11.7	Apr	− 40.6	Q1	− 5.6	− 5.0	114.5	119.3	1.36	1.28	2.51	1.72	1.18	+ 0.9
Austria	− 1.2	Mar	+ 0.5	Dec	+ 0.1	+ 0.1	105.3§	105.7	0.79	0.82	1.46	–	0.69	− 1.9
Belgium	+ 13.2	Apr	+ 6.6	Dec	+ 2.0	+ 2.0	107.1§	107.6	0.79	0.82	1.46	–	0.69	− 0.4
Britain	−126.3	Apr	− 57.4	Q4	− 2.7	− 2.7	100.1	101.4	0.54	0.55	–	0.69	0.47	− 3.4
Canada	+ 57.6	Apr	+ 31.8	Q1	+ 2.2	+ 1.5	130.3	116.7	1.11	1.24	2.04	1.40	0.96	+ 2.2
Denmark	+ 8.5	Apr	+ 5.3	Apr	+ 2.5	+ 2.3	106.3	105.4	5.90	6.14	10.9	7.45	5.13	+ 3.3
France	− 28.0	Apr	− 32.6	Apr	− 1.8	− 1.4	107.9§	108.5	0.79	0.82	1.46	–	0.69	− 2.9
Germany	+188.7	Apr	+109.3	Apr	+ 3.8	+ 4.0	109.4§	110.1	0.79	0.82	1.46	–	0.69	− 3.1
Italy	− 18.2	Apr	− 28.5	Apr	− 1.6	− 1.5	107.5§	108.0	0.79	0.82	1.46	–	0.69	− 4.2
Japan	+ 80.7	Apr	+162.7	Apr	+ 3.6	+ 3.4	81.8	87.9	115	109	212	145	–	− 5.2
Netherlands	+ 39.0	Apr	+ 42.3	Q1	+ 5.8	+ 5.7	108.0§	108.4	0.79	0.82	1.46	–	0.69	− 0.5
Spain	− 99.9	Mar	− 88.9	Mar	− 7.3	− 7.4	105.6§	105.9	0.79	0.82	1.46	–	0.69	+ 1.1
Sweden	+ 20.0	Apr	+ 23.2	Q1	+ 6.5	+ 6.2	98.4	96.0	7.28	7.66	13.4	9.20	6.33	+ 1.7
Switzerland	+ 7.8	May	+ 50.2	Q4	+13.0	+12.3	106.6	106.6	1.24	1.27	2.28	1.56	1.07	− 0.2
United States	−814.7	Apr	−808.5	Q1	− 6.9	− 6.9	83.3	85.5	–	–	1.84	1.26	0.87	− 3.6
Euro area	+ 2.2	Apr	− 44.7	Mar	− 0.3	− 0.2	118.2	114.3	0.79	0.82	1.46	–	0.69	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 7.1	Apr	+ 5.4	Apr	na	na	108.7§	109.2	0.79	0.82	1.46	–	0.69	+ 2.2
Greece	− 36.8	Apr	− 21.7	Apr	na	na	104.7§	104.9	0.79	0.82	1.46	–	0.69	− 3.0
Iceland	− 1.8	Apr	− 3.1	Q1	na	na	101.8**	101.3	74.7	65.7	138	94.4	65.0	+ 2.0
Ireland	+ 37.4	Apr	− 3.9	Q4	na	na	113.1§	114.0	0.79	0.82	1.46	–	0.69	− 0.3
Luxembourg	− 4.9	Mar	+ 3.6	Q4	na	na	107.1§	107.6	0.79	0.82	1.46	–	0.69	− 1.7
New Zealand	− 4.8	Apr	− 10.1	Q1	na	na	121.8	138.9	1.62	1.40	2.99	2.05	1.41	+ 4.6
Norway	+ 55.1	May	+ 50.2	Q1	na	na	110.4	110.2	6.28	6.49	11.6	7.94	5.46	+ 18.5
Portugal	− 22.8	Mar	− 17.0	Mar	na	na	105.1**	106.1	0.79	0.82	1.46	–	0.69	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, April average. ‡OECD forecast. **IMF, February average.

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Stockmarkets

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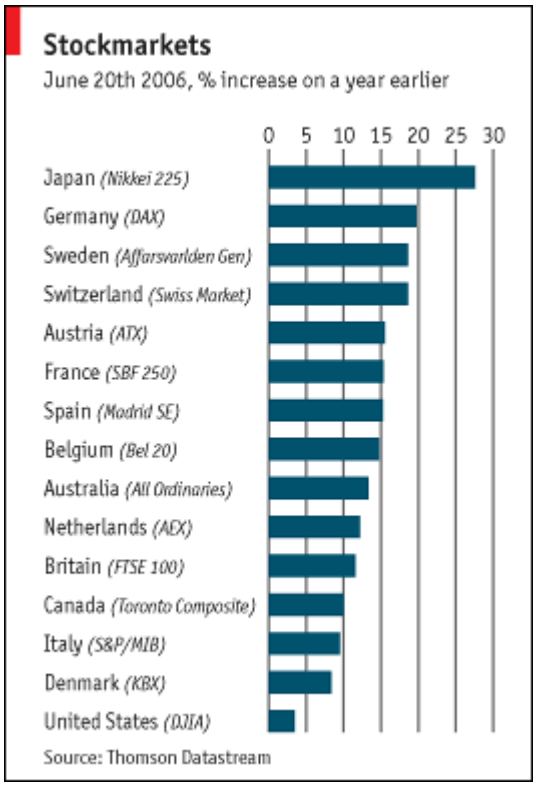

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Overview

Jun 22nd 2006
From The Economist print edition

Emerging-market equities generally rallied over the week. **Stockmarkets** rose by more than 10% in five countries in our table.

In **Russia**, GDP growth slowed to 5.5% in the year to the first quarter. But industrial-production growth jumped to 10.6% in the 12 months to May.

Argentina continues to grow fast. Its GDP rose by 8.6% in the year to the first quarter.

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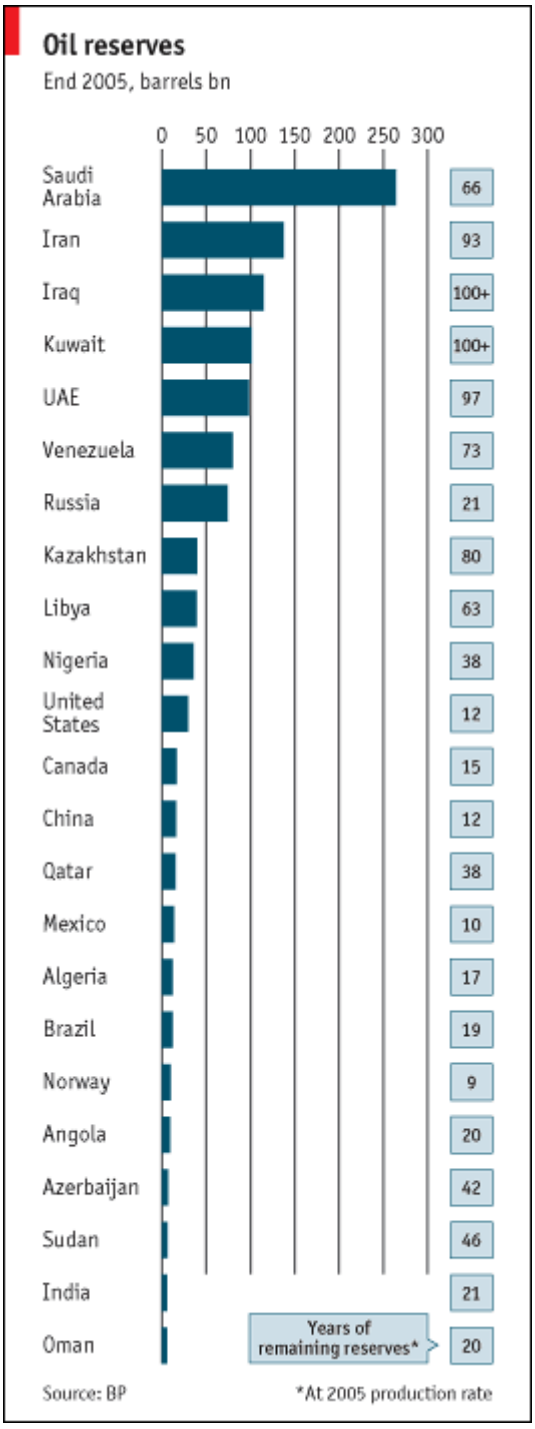
Oil reserves

Jun 22nd 2006
From The Economist print edition

The world had 1.2 trillion barrels of proven oil reserves at the end of 2005, according to BP. If overall production continues at last year's rate, known oil will last for 41 years. But it will run out more slowly in some countries than in others. At today's extraction rate, Saudi Arabia's reserves, which account for more than a fifth of the world total, will last for 66 years.



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Economy

Jun 22nd 2006
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+10.3	Q1	+17.9	May	+ 1.4	May	+118.1	May	+160.8	2005	875.1	Mar
Hong Kong	+ 8.2	Q1	+ 7.0	Q1	+ 1.9	Apr	−12.4	Apr	+20.3	Q4	126.5	May
India	+ 9.3	Q1	+ 9.5	Apr	+ 5.0	Apr	−41.0	May	−13.3	Q4	156.7	May
Indonesia	+ 4.6	Q1	+ 0.2	Mar	+15.6	May	+31.6	Apr	+ 3.0	Q4	38.3	Mar
Malaysia	+ 5.3	Q1	+ 4.7	Apr	+ 3.9	May	+26.4	Apr	+19.9	Q4	75.2	Apr
Pakistan	+ 8.4	2005†	+19.3	Sep	+ 6.2	Apr	−10.7	Apr	− 4.8	Q1	11.5	Apr
Philippines	+ 5.5	Q1	− 6.6	Mar	+ 6.9	May	− 3.6	Mar	+ 2.4	Dec	18.1	May
Singapore	+10.6	Q1	+ 3.0	Apr	+ 1.1	Apr	+32.7	May	+36.1	Q1	128.9	May
South Korea	+ 6.1	Q1	+ 9.5	Apr	+ 2.4	May	+18.7	May	+ 9.0	Apr	224.7	May
Taiwan	+ 4.9	Q1	+ 5.5	Apr	+ 1.6	May	+10.1	May	+18.1	Q1	260.9	May
Thailand	+ 6.0	Q1	+ 7.2	Apr	+ 6.2	May	− 3.7	May	+ 0.4	Apr	55.5	Apr
Argentina	+ 8.6	Q1	+ 4.9	Apr	+11.5	May	+10.2	Apr	+ 5.4	Q4	21.2	Apr
Brazil	+ 3.4	Q1	− 1.9	Apr	+ 4.2	May	+44.6	May	+12.8	Apr	56.9	Apr
Chile	+ 5.1	Q1	+ 0.9	Apr	+ 3.7	May	+14.2	May	+ 0.8	Q1	17.4	May
Colombia	+ 5.4	Q1	− 1.8	Apr	+ 4.0	May	+ 1.1	Mar	− 1.9	Q4	14.5	May
Mexico	+ 5.5	Q1	− 0.8	Apr	+ 3.0	May	− 3.7	Apr	− 1.2	Q1	78.4	Apr
Peru	+ 3.6	Apr	− 1.5	Apr	+ 2.2	May	+ 5.7	Apr	+ 0.7	Q1	13.3	Apr
Venezuela	+ 9.4	Q1	+ 8.7	Feb	+10.4	May	+34.8	Q1	+28.1	Q1	23.7	Apr
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 5.3	May	−11.1	Q4	+ 2.2	Q4	22.1	May
Israel	+ 5.2	Q1	+ 2.7	Apr	+ 3.5	May	− 8.1	May	+ 4.4	Q1	28.2	May
Saudi Arabia	+ 6.2	2005‡	na		+ 2.5	Mar	+134.3	2005	+90.7	2005	24.0	Apr
South Africa	+ 4.0	Q1	+ 0.1	Apr	+ 3.3	Apr	− 5.5	Apr	−10.1	Q4	21.5	May
Czech Republic	+ 7.4	Q1	+ 3.6	Apr	+ 3.1	May	+ 1.7	Apr	− 3.4	Q1	30.8	May
Hungary	+ 4.6	Q1	+ 6.8	Apr	+ 2.8	May	− 3.1	Apr	− 8.0	Q4	21.8	May
Poland	+ 5.2	Q1	+10.2	Apr	+ 1.2	May	− 2.6	Apr	− 4.4	Apr	43.3	Apr
Russia	+ 5.5	Q1	+10.6	May	+ 9.5	May	+132.3	Apr	+92.0	Q1	239.3	May
Turkey	+ 9.5	Q4	+ 7.1	Apr	+ 9.9	May	−47.5	Apr	−26.9	Apr	59.8	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.6	Q1	+ 5.5	Apr	+ 4.7	May	− 2.6	Mar	− 1.5	Apr	2.2	Apr
Latvia	+13.5	Q1	+ 0.4	Apr	+ 6.5	May	− 3.3	Apr	− 2.1	Apr	2.6	Apr
Lithuania	+ 8.1	Q1	na		+ 3.6	May	− 3.7	Apr	− 1.8	Apr	4.0	Apr
Slovakia	+ 6.3	Q1	+ 8.1	Apr	+ 4.8	May	− 2.8	Apr	− 4.5	Feb	16.2	Apr
Slovenia	+ 5.1	Q1	+ 0.6	Apr	+ 3.2	May	− 1.6	Apr	− 0.3	Apr	8.3	Mar

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Jun 22nd 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 21st		Dec 30th 2005	
	Jun 21st	year ago	Jun 21st	% a year		one week	in local currency	in $ terms
China	8.00	8.28	14.7	3.00	1,680.3	+4.4	+ 37.6	+ 38.9
Hong Kong	7.77	7.77	14.3	4.67	15,659.4	+2.7	+ 5.3	+ 5.1
India	46.0	43.5	84.7	6.17	10,040.1	+12.4	+ 6.8	+ 4.6
Indonesia	9,363	9,650	17,258	13.00	1,293.3	+4.8	+ 11.2	+ 16.9
Malaysia	3.67	3.80	6.76	3.92	894.7	+0.2	- 0.6	+ 2.5
Pakistan	60.3	59.7	111	9.25	10,103.0	+15.2	+ 5.7	+ 4.9
Philippines	53.2	55.6	98.1	7.94	2,057.8	-0.4	- 1.8	- 2.1
Singapore	1.59	1.67	2.93	3.47	2,329.6	+2.1	- 0.8	+ 3.7
South Korea	956	1,011	1,762	4.50	1,227.2	+0.4	- 11.0	- 5.9
Taiwan	32.6	31.4	60.1	1.78	6,299.6	- 2.6	- 3.8	- 3.2
Thailand	38.4	41.2	70.8	5.40	649.7	+0.5	- 9.0	- 2.8
Argentina	3.08	2.87	5.67	9.81	1,579.4	+4.6	+ 2.3	- 71.5
Brazil	2.24	2.37	4.14	15.18	34,546.6	+4.9	+ 3.3	+ 7.4
Chile	546	577	1,006	5.04	9,668.1	+2.7	+ 5.0	- 1.4
Colombia	2,568	2,316	4,733	6.13	7,525.7	+14.7	- 20.9	- 29.6
Mexico	11.4	10.8	21.1	7.03	18,156.2	+8.1	+ 2.0	- 5.2
Peru	3.26	3.25	6.02	4.48	7,812.0	+4.5	+ 62.7	+ 71.0
Venezuela	2,583§	2,686§	4,761	10.29	30,426.6	+0.5	+ 49.2	+ 49.4
Egypt	5.76	5.80	10.62	8.73	43,584.3	+3.3	- 21.3	- 21.6
Israel	4.46	4.53	8.22	5.64	828.9	+0.4	+ 0.1	+ 3.3
Saudi Arabia	3.75	3.75	6.91	4.98	12,729.4	+5.7	- 23.8	- 23.8
South Africa	7.18	6.72	13.2	7.50	20,676.7	+10.3	+ 14.3	+ 1.0
Czech Republic	22.5	24.6	41.5	2.25	1,315.0	+10.5	- 10.7	- 2.3
Hungary	220	204	406	6.66	19,176.3	+3.3	- 7.7	- 10.3
Poland	3.23	3.32	5.95	4.18	37,449.7	+4.0	+ 5.2	+ 6.2
Russia	26.9	28.6	49.6	12.00	1,361.6‡	+6.8	+ 13.3	+ 21.0
Turkey	1.67	1.35	3.07	18.17	33,762.0	+2.6	- 15.1	- 31.1
EM (MSCI)*	1.00	1.00	1.84	na	693.0	+2.9	- 1.9	- 1.9
EMBI+†	1.00	1.00	1.84	na	365.2	-0.3	- 0.9	- 0.9

* Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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